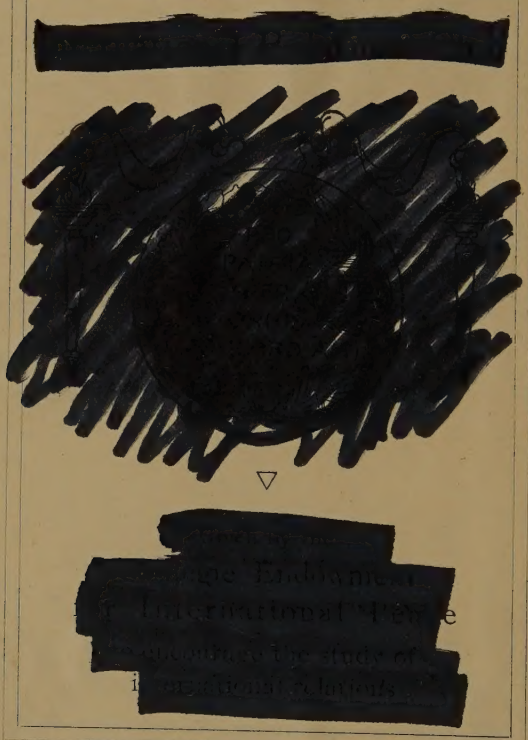
America Looks Abroad

PAUL M. MAZUR

THE NEW ECONOMIC HORIZONS



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AMERICA LOOKS ABROAD

The New Economic Horizons

AMERICAN PROSPERITY

Its Causes and Consequences

by PAUL M. MAZUR

AMERICA LOOKS ABROAD

The New Economic Horizons

BY PAUL M. MAZUR

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TO

DOLPH

Foreword

CONFESSION, it is said, is good for the soul. Two years ago, when I wrote *American Prosperity*, I failed utterly to foresee the extent to which the finances of America would become involved in speculative transactions. I anticipated that money rates would tend to decrease, whereas in reality the absorption power of speculation brought about the opposite.

I like to think that the other conclusions which I drew and the prognoses which I had the temerity to make have proved to be reasonably correct. Among them I sketched the shadows of Europe that were just beginning to fall across the roadway of American business. As the new decade opens, it appears to me that American relations with Europe will prove the chief problem to be solved in the next ten years, if they are to enact a history as dramatic and successful as that of the decade just closed.

This book is dedicated to the problems of 1930–1940 —not with the hope that I have said the last word, but only with the desire to contribute at least some-

thing to clear thinking, which will undoubtedly be more and more urgently needed as the months roll by.

The use of "America" as a synonym for "United States" throughout this volume is a matter of convenience and not of complacency.

PAUL M. MAZUR

New York City,
March, 1930.

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AMERICA LOOKS ABROAD

INTRODUCTION

New Horizons

INDUSTRIAL AMERICA again stands at the crossroads. In October, 1919, the stock market declined precipitously and a decade of business activity came to a close. There was depression in 1920 and there was doubt as to whether industry would travel back along the road to the levels of pre-War production or forward along paths of new and greater accomplishment. It is a matter of fact that the ten years from 1920 to 1930 became a period of economic activity and progress unexampled in the history of the nation.

In October, 1929, the stock market again crashed; this time with still greater violence and with even more alarming reverberations. A decade of industrial triumph came to a dramatic end.

A new period, with uncertain possibilities, stretches ahead. It would be easy, of course, in view of America's past achievements, to rely upon American ingenuity, American resilience, and American economic destiny. Such faith is undoubtedly of great importance but it

cannot fill the need for an inclusive survey of the means by which new life may be instilled into industry and commerce. The important sources of America's past prosperity are by no means exhausted. The automobile, building, obsolescence, and installment selling will continue to play their role, but they seem for the most part to be no longer capable of giving impetus to a rate of development such as dramatized the era of 1920-1930. The needs of progress and the demands of industry require other sources—new in character or still rich in residual possibilities.

Of these, the one that promises most for the next decade of American business is world trade. Although really an old factor which has already contributed substantially to the prosperity of the country, world trade holds untried possibilities that can make the immediate past seem by comparison only a small beginning in the history of America's material progress.

It is, therefore, especially unfortunate that on the very horizon on which a new day is beginning to dawn for American business, dark storm clouds can be seen gathering. Because of her anomalous position in international trade, America is caught in a dilemma of the first magnitude, from which any escape involves not only economic but also far-reaching social results.

First of all, this is a story of economics; but since economic relations are said to underlie all historical events and all social life, and since, as the author believes, economics is but that branch of anthropology which deals specifically with human beings in the satisfaction of their needs, the scope of this book might be made as inclusive as history and as varied as human behavior. So comprehensive an undertaking would not be feasible; but no economic story may entirely ignore the psychological and sociological background of industry and commerce. Whenever, therefore, the affairs of business require an understanding of men and manners, or a change of men and manners, the author feels called upon to follow the bypaths of society as well as the highroads of industry.

This volume purports to be a fragmentary picture of America looking *abroad,* widening her outlook to include the rest of the world in accordance with the present requirements of economic progress. It is a picture of *America* looking abroad, and seeks primarily to be valid from the point of view of the American, admittedly influenced by a philosophy of business and society based upon modern industrialism.

Although all parts of the world have a place in a consideration of America's international problem, it is Europe that commands the greatest interest. America's

problem is to be solved in Europe; nowhere else are American interests so crucially situated and possibilities of conflict of interests so imminent. The world, besides, is dominated today by the Western civilizations of Europe and America. America may challenge the industrial supremacy of Europe, but whatever the result of this conflict, the industrial sovereignty of the earth will still be shared by both America and Europe. It is inevitable, then, that the American student of his nation's foreign relationships finds himself suddenly a trespasser on the private grounds of his European "neighbors." The habits and manners of Europeans become matters of intense interest to him. He *must* venture abroad even at the risk of offending.

If the reader objects to the ideas presented herein on the ground that they fail to satisfy the *economic* problems, then the book has failed of its purpose. But if he objects only to the implied extension of "American" ideals; he must be reminded that the author is not advocating but simply stating them.

Every people has the right to make its own choice between an economic evil and what appears to be a cultural evil. There can of course be no quarrel with Europe should she prefer, for cultural reasons, to dismiss whatever in American methods might benefit her industrially. But whatever may be said against "Amer-

icanization," Europe is at present undergoing radical economic changes in that direction; and if she desires to recover her pre-War status, even more that is American in character can be used effectively.

America too must undergo a radical change in method and outlook. Her primary requirements are less provincialism in politics and a more carefully considered foreign economic policy.

A DECADE CLOSES

I

The Avalanche

DURING the three weeks from October 24 to November 13, 1929, the New York stock market crashed from great heights and took with it in its fall the speculative profits and a large slice of the capital of millions of men and women, including thousands of bankers and professional traders. In a space of twenty days the market values of listed securities dropped more than forty-five billions of dollars. Never before in such a short period of time had there been so precipitous a depreciation in the assumed value of paper fortunes.

It was Humpty-Dumpty's fall, and around his broken remains there crowded the victims whose spirits and fortunes had fallen with the hero. He had persevered so long and happily through the many challenges of insurgent pessimism that his reign had seemed likely to have no end. Around his shattered body there also jostled those who had been prophets of misfortune and were now basking in the sun of popular esteem. It

mattered not that some of the self-appointed seers had been seeing the end of the stock market boom for four years. They forgot the past and came to claim glory for their vision that had crept so slowly to fulfillment. Others saw clearly in the phenomenon the causes that should have escaped no intelligent man and, being highly intelligent themselves, converted expert hindsight into uncanny foresight, and presented their diagnoses as perfect prognoses.

Undoubtedly there were many who had anticipated the turn of affairs. But it seems very unlikely that more than a very few could have foreseen the violence of the occurrence. The hurricane deposited its wreckage not only on the public's shores; the private beaches of the men trained in Wall Street were also strewn with pieces from the vessels that had been expected to bring home unlimited wealth.

Time and again, during the three years that preceded the debacle, quantitative theories of money and markets had failed to foretell the course of events. Men were in an unprecedented mood; business was creating unheard-of records; the future seemed to be leading to the stars as realizable goals. Men were establishing new standards of relationship between the value of a security and its earnings; the old standards had broken down. Men were establishing new ratios between gold and

credit; old ratios had become archaic and inaccurate means of measurement. It became impossible to project accurately the future from the past, for each new day was creating new situations unparalleled, for the most part, by previous experience. There was no blame attachable to quantitative economics, unless it be for presuming to build economics upon an exclusively quantitative base, disregarding entirely psychological factors. The actual factors were too varied and too largely mental rather than pecuniary to offer a sound empirical basis for anticipating the future.

An inventory of the United States as of September 30, 1929, would have presented a truly remarkable situation. The financial resources of the country were great—in fact too great for its commercial needs. More than forty per cent of the gold supply of the world was in the possession of the government and the Federal Reserve system. The banks instead of remaining agencies for lending capital, became intermediaries for putting into the stock market the call loans of their customers. Hundreds and thousands of business institutions were borrowing no money, but feeding, instead, their surplus funds at high rates to the maw of speculative demand.

The volume of business was more than satisfactory. Although old paragons of prosperity-proof enterprise

like the textile and coal industries continued to demonstrate their ability to avoid improvement, the majority of businesses showed substantial, even huge increases over the corresponding period of the previous year.

Nevertheless, for some time before September 30, 1929, the values of securities listed on the Stock and Curb Exchanges had been presenting a mixed picture not altogether in harmony with the industrial spectacle that the months were unfolding. For nearly a year, more than six hundred separate issues of listed securities had been plunging or creeping slowly to lower levels. These represented for the most part the shares of smaller, little known companies, markets for which were relatively inactive. The now famous "blue chip securities," on the other hand, maintained their steady march forward at a speed equal to or even greater than that warranted by the growth of business. The public was obviously speculatively inclined; but it was a specialized speculation that was in vogue.

It has been estimated that there were in America during the first half of 1929 more than sixteen million stockholders. If we were to count four members to a family and assume only one stockholder to each family, this total would make more than half of the people of the United States directly interested in the security

markets. But even allowing for duplication in the statistics and an inability to make an exact census of the number of people involved, the widespread interest in the daily fluctuations of security prices constituted a major social phenomenon. Brokers' loans amounted to nearly seven billions of dollars in September, and even this sum, huge as it is—representing nearly seventy per cent of the visible gold supply of the world—was only a part of the credit used in financing stock market transactions. Only the loans made by brokers against stock exchange collateral and for the account of customers who traded on margins were included in the famous weekly serial published each Thursday by the Federal Reserve Board under the title of "Brokers' Loans." In addition to this sum, there were the loans made by banks to individuals against stock exchange collateral. These never appeared as part of the call-loan supply, but they were nevertheless a part of the credit foundation upon which security prices were based. An equitable estimate would place the amount of credit involved on our inventory date of September 30, 1929, between ten and twelve billions of dollars. The expansion of credit was taking place faster than the growth of business.

During 1927, security prices averaged roughly ten and one-half times the earning figures of the year. In

1929, the multipliers had increased to nearly twenty times. And when it is realized that the average in this case included many companies whose declining security prices were fifteen and even ten times earnings, it becomes clear that in the case of the favored securities the multiplier was nearer twenty-five or thirty times current earnings; and in many cases the figures grew to forty, fifty, and even seventy-five times earnings.

It would be decidedly unfair, at the same time, to leave the impression that the American public and the bankers had been willing to create a price that required anywhere from thirty to fifty years of the cumulative earnings of a company to attain. The use of the so-called multiplier is fundamentally fallacious. In reality what determines a security price is the willingness of the public to discount the future earnings of the company. Obviously, a company that gives promise of doubling 1929 earnings the following year will not sell on the basis of 1929 earnings, if the public knows the facts. The demand for the securities will force the present price to discount the future. And it was this apparently unlimited possibility of rapidly increasing earnings that created scarcity values. The public believed in a road of prosperity that had no turning. Years of rising prices had given evidence of unearned

increment to those who would ride with the times, and the throngs of riders became literally mobs.

There was still another factor that contributed to the scarcity of securities and therefore to the dangers attendant upon monopoly prices. The profits from the sale of securities are subject to the federal income tax to the same amount as current income, except where these securities have been held for more than two years before resale, in which case a capital gain tax with a maximum charge of 12½% may be levied on the profits. As there are in the United States many thousands of people who pay a 25% income tax, the saving of one-half of this tax undoubtedly induced many people to hold securities for the full two-year period. These individuals are the large stockholders of the country. They could suffer a decrease of 12½% in the appreciation of the value of their securities during the two-year period and still be even in their accounts as against the sale of their securities within the two years.

This tax provision was undoubtedly responsible for the withdrawal of many securities from the market and the consequent shortening of the supply upon which an unusually active demand was already focused. The retention of securities by men of means diminished the floating supply to a point where short-selling

lost some of its attractiveness. It is dangerous to sell what is not one's own when it may be difficult later to gain title at a reasonable price in order to fulfill the contract.

Although this factor was important, it was probably not as important as the proponents of a revision of the tax on securities profits would have us believe. After all, the investors who may be influenced by an income tax saving of 12½% represent only a fraction of the total number of investors, and the combined purchasing power of the millions overshadows the investments of the ultra-rich. For several months before November, moreover, marginal accounts increased materially and the stability of prices indicated that those who owned securities outright were selling to those who held on margin.

Nevertheless, the tax on profits was a factor in price and was undoubtedly an element in expanding the credit structure.

Men who owned securities outright and held them to obtain the benefit of the two-year rule, found their capital relatively frozen. As new issues, apparently attractive at the time, were offered, many who desired to purchase them, found it necessary to borrow funds or to sell some of their holdings. The deterrent inherent in the tax law unquestionably stimulated marginal

purchases and stretched the credit structure just so much thinner.

The investment trusts so popular in 1928 and 1929 contributed still further to this attenuation of the credit structure. The diversity of types and activities of the institutions blanketed under the title of investment trusts is so great that generalization about them is hardly possible, although it may be stated without proof that there are valid and sound functions for the American type of investment trusts in the financial and industrial processes of the country.

During the two years prior to September 30, 1929, hundreds of investment trusts aggregating billions of capital had been formed. It is estimated that by October 1st, there were over five hundred known trusts with a total paid-in capital of about three billions of dollars. The sale of their securities gave them the use of a great deal of free capital and created additional credit for those who purchased part of these three billions for cash and credit. Moreover, unlike many industrial issues, these securities represented no injection of capital into industry for developing production and consumption. The investment trust used its funds for the purchase of securities upon the open market; and until such time as it could employ its funds for this purpose, it loaned them in the call market at satis-

factory rates of return. Not only, then, did the investment trust contribute to the expansion of credit, but it became a factor in supplying that credit, by making more capital available in the market.

The investment trusts probably influenced also the course of security prices and the type of market which obtained in the spring and summer months of 1929. It is practically impossible for a management controlling fifty or two hundred and fifty millions of dollars to obtain reasonably accurate information concerning the twelve or fifteen hundred securities listed on the New York exchanges. A portfolio of hundreds of securities would be so cumbersome as to be impractical, to say the least. It is almost a necessity for an investment trust to limit the number of situations in which it can make investments. And once the number of opportunities is limited it becomes a purely arithmetical necessity for the investment in each one to be fairly substantial. Hundreds of issues of smaller companies were thus excluded from the portfolio of most investment trusts, and public interest was further narrowed to the big companies whose stocks became the famous "blue chips."

This concentration of capital upon a relatively small class of securities had two results. It furnished a materially greater demand for the fixed supply of the

favored securities, with markedly rising prices for these as an inevitable consequence. And at the same time, by withholding investment funds from the smaller, less active securities, it established a history of falling prices for a majority of the items on the list.

The investment trusts were imitated to an important degree by other investors and speculators. Inasmuch as these trusts are managed for the most part by private banking houses, the investment policy of the trust became, more frequently than not, the lodestone for the employment of some of the funds of the banking houses themselves; and in so far as the trusts created active markets in particular securities the attention of speculators who sought quick profits was directed into a few particular channels. Not only the investment trusts but also investment houses and market operators concentrated gargantuan sums upon a very select list of securities—probably not more than one hundred and fifty or two hundred in number.

Wheels within wheels spun at dizzy speed. The magnitude and the future possibilities of industrial concerns were the warp and woof of a fantastic fabric woven by the shuttle of the financial mills. It may have been only common sense that was needed to detect the fallacy in all these operations, but common sense is a rare quality, more in evidence in retrospect than in

prospect. The weekly increases in brokers' loans were indeed danger signals, but their very repetition lulled most people into a false sense of security. This may now seem mere stupidity, but there existed at that time no accurate standards by which to measure the zones of safety and hazard. There were some authoritative voices of warning; but there were many more that preached the more popular text that all was secure.

For months the Federal Reserve Board exhorted against the direction of the capital and credit of the country into speculative channels. Some critics heaped blame upon the Board for its policy of warning because of the disquietude it aroused. Others felt and declared that the Federal Reserve Board's policy was anæmic and spineless, and that an actual raising of the rediscount rate or the restriction of credit by one of the several means at its command would be a salutary measure worth a thousand admonitions to the speculatively-minded bad boys and girls of the country.

When, however, the Federal Reserve Board finally did make a vigorous attempt to restrict credit, there was anything but a lull in the speculative activity of the country. The interest rate on call loans was increased; marginal accounts became more expensive playthings; but brokers' loans continued to mount. One of the consequences of the high call-money rates was the very

thing that follows the creation of a high market of any kind. Commodities seeking sale came to the market. It was now more profitable than ever to loan money on call and therefore a still greater supply of funds became available to speculative interests, although at a still higher cost. The Federal Reserve statements showed marked increases in the funds made available to the stock exchange houses under the label "For the account of others." Individuals and businesses found it extremely profitable to lend money on call for seven, eight, and nine per cent. Millions of dollars came to America for this purpose from abroad. The speculative structure rose higher as the base upon which it was built became broader.

Although one would have expected the increasing costs of marginal accounts to have served as their own corrective, there was no recession in the tide of speculation. Marginal accounts were created not to purchase shares for the yield inherent in them, but rather to purchase a call upon shares which in rising would show a profit. The increased charge resulting from carrying securities on margin for a few months at six, eight, or even nine per cent was negligible as contrasted to the profits expected or at least hoped for, as a result of the transaction. In a boiling market the cost of credit was unimportant; and as the market con-

tinued to jump for months after the rise of the rediscount rate, people gladly paid the additional carrying charge, secure in the belief that America's immediate future was beyond computation.

Nevertheless the foundation was insecure, and once the rising trend of prices turned down or merely ceased to ascend, the cost of carrying marginal purchases grew disproportionately and was added to actual losses in the face value of securities. Whenever a turn took place, the avalanche of marginal purchases would of necessity propel itself on a declining market with terrific force.

Notice of an approaching storm came first in October. The market recovered, but in November lightning struck again and again in the same place. Subsequent developments were due to the character of the credit structure upon which the speculative temple had been built and to many special and secondary forces which were suddenly liberated by the catastrophe. Declining prices eliminated existing margins. Calls for additional margins went out daily. Failure on the part of investors and speculators to meet this demand meant forced sale of their holdings. The supply of securities was augmented each hour; prices tumbled and over-confidence was replaced by utter lack of faith. Statements meant to be reassuring were inter-

preted as evidences of alarm. Further liquidation seemed to prove the falseness of these reassurances and every encouraging note sounded like whistling in the dark.

Forty-five billions of security values vanished and with that sum it was thought that an equal amount of purchasing power and wealth had been annihilated. It was impossible to convince some people that the actual loss did not equal this huge figure. Those who saw in the catastrophe primarily a redistribution of wealth were dismissed as mere theorists. Four billions of brokers' loans disappeared, and with that sum there undoubtedly went the margins of many hundreds of thousands of investors and speculators. Europe called back millions of her deposits. Europeans sold great amounts of their holdings. Brief rallies were followed by greater liquidation as if some destructive genii had paused only for breath. Special contingencies involving large blocks of securities were revealed, and the ticker tape struggled belatedly to tell its woeful tale of the sales of thousands of shares. Reports from the exchange came telling of offerings with no bids.

It was chaos.

II

Looking Backward

With the memory of those disastrous days still vivid, it is much easier to picture what might have been than to anticipate what will be. The past is clear enough; but the future is veiled in clouds of uncertainty. On the one hand an atmosphere tinged with "blue" makes enthusiasm impossible; and on the other, a deep faith in the economic resilience of America makes permanent pessimism unacceptable as a working philosophy. So clear are the developments of yesterday which should have been anticipated, that it seems almost juvenile not to be able to discern what tomorrow has to offer—and still the most ardent searching does not give any assurance that we have won the secrets of the future.

Fundamentally, investment and speculation, like all activities that have to do with tomorrow, depend upon faith. It was faith in the continuing and increasing prosperity of America that had supported rising values. When suddenly there appeared several very dark

clouds upon the industrial horizon, shadows began to fall across the sunny path of confidence. There had been a business recession in 1927 but the stock market had only paused in its climb; at that time the cause of the situation had seemed only temporary to investors. The situation in 1929, however, seemed less transient and superficial, just as the credit structure was far more brittle.

Late in October the published figures for automobile production and sales showed for the first time in many months a serious decline in comparison with the figures of the previous year. Rumors about the chaotic conditions of the second-hand market were rampant; and the future looked troubled. It seemed entirely possible that the huge automotive industry would show serious diminution of activity for the remainder of 1929 and for some part at least of 1930. The building business which had been declining slowly for more than a year suddenly found itself confronted with an actual shortage of capital. Mortgage loans were difficult to obtain; and building loans were almost impossible to find. Other businesses, too, like the radio industry (which was showing strong price-cutting proclivities) seemed covered over with clouds of a disheartening hue and with an uninspiring disinclination to blow over.

It is reasonably certain that even without a serious stock market crash in November, 1929, there would have been a substantial recession in the business results of 1930. The feverish intensity of industrial and commercial activities during the first six or nine months of 1929 seemed out of line with the possibilites of a continuous economic program. Whereas there are no theoretical limits to production and consumption, there are definite time limits to their rate of growth, and demand, generally speaking, cannot be increased twenty or thirty per cent within a twelvemonth's period without some maladjustment ensuing.

The automotive industry, the nation's greatest enterprise, had undergone an intensity of activity in the first part of 1929 that could have been followed only by a sluggish period. The industry had produced at a speed which consumption did not justify, and as a whole it failed to adjust its program to a proper interpretation of the absorption power of the world. Since, however, the necessity of a readjustment was apparent as far back as 1928, there must have been extenuating circumstances to justify the production schedules of 1929; and the probable reason for overproduction was the surprising recovery of Ford and the natural desire of other manufacturers to maintain the sales volumes they had built up during his temporary withdrawal from the

market. But even if the craft as a whole had given due recognition to the impossibility of advancing production schedules from the four million six hundred thousand figure of 1928 to the five million six hundred thousand total of 1929, it is doubtful whether in a capitalistic and individualistic system like our own many manufacturers, if any, would have assumed the responsibility of eliminating the dangers of maladjustment by reducing schedules. Then, too, it is an unfortunate fact that in spite of the progress made by American industry in the substitution of a merchandising philosophy for unregulated mass production, there is still much uncritical devotion to the latter, and expertness in anticipating probable public demand is largely lacking.

The radio industry also gave promise of a reaction for the year 1930. The number of competitors had grown tremendously during 1929, and the productive ability of many plants had been actively developed during the year. The plans for the fall season were based upon obtaining large increases over the same period of the preceding year. Six weeks previous to the market debacle, the expectations threatened to fall short of fulfillment. The popularity of the radio had suffered. There were no political campaigns or colorful personalities to stimulate sales, and no startlingly new mechanical improvements had developed. The product

was now more dependent upon replacement than upon initial equipment. Overproduction became an assured fact; 1930 was likely to show, especially in the first part of the year, a marked recession.

The building trade was likewise in an unpromising condition, although the factors were not quite as clear as in the cases of radio and automobiles. Scarcity of capital seemed to be the immediate cause of a very bad situation. Underlying that condition, however, was another that had exerted an adverse influence on the industry for months before the stringency of capital caused activities to drop precipitously. The post-War building program had reached a point of relative stabilization, and the great change which had led Americans to develop suburban rather than urban districts for dwelling purposes had reached a point of reasonable stability. When the burden of stringency of capital fell, it was superimposed upon a situation that was already strained.

Finally, the foreign trade of America had been tapering off for some time before November. The circumstances responsible for this phenomenon involve many of the most confusing and comprehensive elements of international economics. For the moment it may suffice to point out that there were three factors chiefly responsible for the loss of a part of

America's export market. The inability of Europe to export her goods in sufficient quantities to the United States made the importation of American goods an unwise policy for Europeans. The recovery of Europe made importation less necessary; this was particularly evident during the fall of 1929 when high prices of American cereals, combined with bumper crops in Europe, reduced the export of wheat and grains from America. Finally, the marked decrease in the financing of European enterprise, which took place in 1929, particularly in the latter half of the year, deprived Europe of credit; a situation greatly aggravated by exports of European capital to the American money markets. With the rise in call rates and the absence of safe opportunities in Europe, free capital from the Continent came pell-mell into the call market or into the boiling security markets of the United States. The withdrawal of these funds from Europe weakened her ability to finance her domestic projects and simultaneously reduced the wealth which she could use for the purchase of American goods. American exports in the second half of 1929 began to show marked decrease.

Even if the influence exerted by the November break in security prices could have been entirely eliminated, the export trade situation was likely to have exercised an adverse influence on American busi-

ness throughout at least the major portion of 1930.

Although automobiles, radios, building and exports comprise by no means all of American business, they represent a substantial factor in the nation's trade, and the securities of the industries serving them were among the leaders in interest and activity upon the exchanges. With somewhat of a recession in business an assured fact, the stock market crash hurled itself upon an industrial structure whose supports were already weakened.

In 1929 a period of American business came to a close, not merely as a result of an unheard-of cataclysm —which perhaps need not have taken place—but as the natural consequence of a stabilization of possibilities. In almost every one of the nation's key activities a point of diminishing returns had been reached. Almost every business discovered that its leap into the infinite sales possibilities was handicapped by a ball and chain of whose existence few people had been actively aware.

As a new decade begins, perhaps it will be well to examine whether the old developments still have vitality in them for the new records of achievement that the progressive needs of economic life demand.

Many factors contributed to the development of American prosperity for the decade just closed, and a full recital of their various roles would be neither

convenient nor necessary. Those, however, which were new as well as potent and caused truly altered conditions for the activity of business—those, in brief, which were genuine stimuli for the American economic organism—may be reviewed with an eye to their future potency.

A first consideration in any history of 1920-1930 must, of course, be the War, for it was as a result of the War and the post-War deflation that the treasuries of the United States contained nearly one-half of the gold supply of the world. It was this hoard of nearly five billions of dollars that constituted the foundation for the credit structure of American industry and commerce.

Money by itself can, of course, supply no spontaneous impetus to business, but as a vehicle of trade development it is essential; and its lack is a serious handicap. With wealth and capital plentiful, American industry proceeded to develop a mechanism that produced novel results.

Perhaps the most important complex of elements lay in a curiously idyllic development that saw many thousands of Americans take to the outskirts of cities and establish their homes on grounds where, but several months before, only weeds and sprinklings of flowers had grown. To a substantial degree the people

of the United States changed from urbanites to suburbanites. The environs of most of the cities of the nation changed from open country to realty developments. Building received an upward impetus that measured itself in billions and kept the suppliers and workers actively engaged in profitable endeavor.

The psychological factors involved in this revolution in the dwelling habits of the American people are beyond our purview. It is relatively simple, however, to point out three purely industrial elements that contributed tremendously to the change. Realty organizations with their persistently aggressive and persuasive methods added not a little to the development; available capital and credit made the financing of new homes reasonably easy; and lastly, cheaper automobiles, as a consequence of expansion of the automotive trade, offered a convenient and rapid means of transportation to places of business or employment and to shopping centers. The automobile was an ideal means of precluding the physical isolation of country life; it established an excellent line of communication for the gregarious suburbanite who wanted to escape the city atmosphere, and at the same time have it near enough to enjoy at will.

The automotive industry, having contributed markedly to the development of the building trade, bene-

fited in turn from the new habits of living upon which the construction boom was founded. The automobile changed from a luxury to a necessity, and the change was reflected in an increase in the rate of production from about two million to over five million cars annually. But even the suburb and the automobile were only parts of a larger combination of forces operating upon the economic life of the nation.

The dynamic factors of economic growth were style and the deferred payment plan. They had been introduced before, but it was in 1920-1930 that the extent of their development really became of the utmost significance.

The emphasis on style that characterized American life made the man who already owned a car a potential consumer of a new model long before the usefulness of the old was exhausted; and the possibility of acquiring cars on the installment plan made purchasers of many people who could not have bought out of savings but who were willing to buy out of income. The creation of a style appeal for necessities as well as for luxuries fitted in with the speed of living and the rapidity of change characteristic of the decade; and so resulted the continual re-creation of consumer markets which on the basis of pure utility would have been saturated in no great time.

Consumer financing performed the miracle of advancing to each year a purchasing power that depended for its actual creation upon a subsequent year. During the past ten years the use of installment selling covered a huge range of consumer goods. Automobiles, homes, radios, refrigerators, furniture—even clothing, were sold upon the basis of deferred payment. From a figure of about one billion dollars of installment sales, the total mounted to over five billions; and the addition of these four billions to the purchasing power of the American people was obviously a tremendous stimulant to industry.

Nor were installment sales of goods limited to domestic trade. Even exports were financed on long-term credits. Capital was contributed to Europe with a lavish hand, and combined with aggressiveness on the part of American industry, it established the past decade as a period of unprecedented export figures. By 1929 the total reached a figure of about five and one-quarter billions, representing a surplus over imports of nearly a billion.

Those were fantastic figures of trade, both domestic and international, that graced the income statement of American industry during its golden age of commercial activity. Prosperity was undoubtedly spotty, and the social progress accompanying the boom activity

may have been of questionable character; but the purely quantitative history of the country was undeniably dazzling.

With increasing markets there went hand in hand relatively high wages and highly developed consumer standards of living. The American public was taught to desire by an annual advertising budget of over one billion dollars. Since wage levels remained reasonably high and continuity of employment was assured in many industries, the purchasing power that gave substance to the principle of growing habits of consumption was available in steadily increasing volume.

Industry, precluded from lowering wages, sought to circumvent increasing production costs by further intensifying the mechanization of the manufacturing process. Unit costs declined, the productivity of each worker was increased, the percentage of workers decreased, and the ranks of distribution were augmented from the ranks of production. The emphasis was shifting to distribution, and more and more people became engaged in selling what a steadily decreasing number of individuals were making. One of the results indeed was an increase in selling costs that discounted in part the economies of manufacturing, but at the same time there is no question that these expenses made possible the extraordinary schedules of mass production.

Students of science doffed their academic gowns, rolled up their sleeves, and became integral members of industry. New methods and new products, born of the microscope and the test tube, were dangled before the eyes of a public avidly desirous of the latest thing in the latest field of consumption. "Supplantive competition," as it has been called, undoubtedly destroyed capital and created maladjustments within established industries, but it also stimulated a new demand, built new plants and machinery, and in other ways as well, stimulated industry during the entire decade.

This was no period for jaded palates, closed ears, indifferent eyes. Giants arose full-fledged and large of bulk, like so many baby Gargantuas. A radio industry was born and grew to immense proportions within a few years. Electrical refrigeration made great strides, and in its progress overtook and left behind the obsolescent ice wagon. Labor-saving devices within the home made women's occupations easier and business better. The decade of 1920 to 1929 was startlingly dynamic, even to the point of the fantastic. If ever there was justification for Henry Adams's theory of the acceleration of history, it was then: history moved like an object falling in space; its speed increased each moment.

III

Looking Forward

WHAT the next ten years hold for us is a natural question. It is possible to hazard guesses about the course of the stock market over the next few months. But it is of far greater importance to attempt an analysis of the industrial situation that lies ahead and to gauge the influences that are likely to shape it. Many of the processes that will probably affect American business have been in operation for months if not years. Some have had their beginnings in the market reaction; and still others have been impelled into greater activity and earlier completion by it. The present financial situation is only a part of the general industrial trend; the industrial developments surpass in significance even the cataclysmic crash whose echoes have traveled back and forth across the continent.

Will the present situation represent only an unpleasant gap between a past and a future of feverish industrial development and activity? Or will the years just ended remain for a long time the golden past of

American business? It would be easy, and perhaps correct, to rely upon the ingenuity and progressiveness of American industry for a future that will hold only greater accomplishments, and more general prosperity than ever. But unfortunately, if this expectation becomes a blind faith, there is grave danger of its leading us to ignore the many pitfalls that can delay and may even divert the course of our proper destiny.

Recovery to the previous levels of activity is to be expected; but if men and nations are to progress, past records can only serve as points of departure. Industry requires for its stability that continually larger markets be opened up and an increasingly greater demand be made operative. It is just here that the problem of the future lies, for from the specific elements that were the mainsprings of the colossal activity of the past decade, one cannot derive much assurance of substantial additional development.

The automotive industry shows signs of settling down. A stabilized annual schedule of about four million cars may reasonably be expected. Cars are mortal. Seven years represent the full period of economic usefulness for a modern automobile. With nearly twenty-three million pleasure cars registered in the country, the annual replacement market alone should within a few years call for over three millions;

and some demand beyond this replacement figure should come from increased population and from new users.

The impending probability of an addition, as in the last decade, of three millions to the annual production figures for automobiles, seems anything but likely. Increasing population can bring only a slow accretion to the annual sales volume of the automotive trade, and the number of new users offers no dramatic possibilities because of the large percentage of the population which already possesses automobiles. In theory, every one of the thirty million families of the nation can own an automobile, or even two, and this is not entirely fantastic as an eventual picture; but before it has been fulfilled, tremendous changes and developments in the economic system will have first taken place. To expect any huge increase in the number of new owners is, therefore, to hope for too much. As it is, many present owners have stretched their resources to purchase an automobile; and with all the desire in the world to retain what is already in their possession, some of them will probably have to surrender their cars.

The building trade, too, offers prospects of only a moderate recovery. One may safely predict a continuous construction program in answer to the increasing needs of people and industry, but there would be

no justification for anticipating a recurrence of the feverish building activity of the major portion of the past decade. No war gap, as in 1920, remains to be filled, and the social revolution which took people out of the city has reached a point of relative stability. Undoubtedly, there will be a continuation of suburban growth, but it will follow evolutionary lines such as are natural sequences of a development as radical as the one that characterized the past.

Nor do those of the new industries that have appeared long enough in the sun of past industrial experience to cast a shadow of their future possibilities seem as rich in potentialities as they once did. Radio is still in its infancy and will experience development, but the industry has already gone far enough to indicate that its future will be less spectacular than its past. Television does indeed offer great possibilities of expansion within the radio industry, but television will probably not crystallize out as a commercial factor for another five years.

Even less can be said with certainty about that other development that began to draw to itself a flock of industrial and speculative apostles, namely, the airplane. Toward the close of the last decade, aviation appeared upon the horizon as one of the great economic stimuli of the future. A country made "air-

conscious" by the dramatic exploits of pioneers, discounted the future with astounding suddenness. There is indeed no reason to doubt the auspicious prospects of the aviation industry, but there is every ground for considering that its maximal development is still some years removed. It is to be expected that the opportunities of the next five years will be limited by the experimental problems inherent in the youthful and revolutionary character of the industry.

Style will undoubtedly continue to play an essential part in the activities of business, but style too has covered such a wide range already that its further extension does not promise a proportionate capacity for stimulating sales. And as for the use of the deferred payment plan, while it is certain that it will continue on its road of development, it gives no evidence of growing as rapidly in the next ten years as it did in the past decade. So many industries for which it has proved valuable have taken full advantage of its possibilities that the field has passed the point of extensive cultivation and entered the stage of intensification, with the inevitable consequence of diminishing return. Capital, which is essential for the plan, will probably be adequate, but even so, there is hardly any likelihood of such a plethora of funds as obtained in the recent past.

All told, then, even if there is no justification for assuming a constantly diminishing consumption in the home market, one may reasonably expect, from most of the stimuli of the past decade, only moderate expansion. They give little assurance of being able to energize the future into a period of prosperity that would equal or overshadow that of 1920-1930.

But new stimuli may take the place of the old. The social background of the industrial future of America is a great population with inexhaustible potential needs and desires. The American people represents unlimited future markets, and offers fields for active sales cultivation as rapidly as purchasing power can be created and distributed. The American public is still this side of the horizon of its latent demands, and actually its purchasing power is still the greatest in the world, in spite of the threat of falling consumption contained in the recent events in Wall Street.

In theory, the loss of wealth need not affect business. If men and women mark off their losses of capital and paper fortunes against experience and hopes, and continue to purchase goods, then it is entirely possible for business to show but little retrogression in any given period.

Above all, men and women, Americans especially, do not accept easily any lowering in their standards

of living. Once a consumer has become accustomed to the possession and use of certain articles or habits, the surrender of any of them is made only under the pressure of absolute necessity. Once necessity slackens its reins, the average person gallops back to the pasture of former pleasures and delights. It is this fact of fixed minimum levels of consumer habits, from which people recede only under great pressure, that represents one of the prime factors of resilience in the domestic sales markets of America. Give the people of the United States purchasing power or faith plus consumer financing and they will rush to shop and store to refurnish their homes and persons, to regain their cars and radios, to take up again their accustomed habits of pleasures and diversions.

Increased purchasing power, economic faith, and consumer financing, however, must feed upon the substantial fare of increased and more widely spread wealth, and the latter in turn depends upon the effectiveness of specifically economic forces and upon the actual scope of business opportunities.

There are some new factors that fortunately give significant promise of realization within the coming decade. The probability of railroad electrification suggests a stimulus to trade of no mean dimensions. The extension of electrification to the fifty per cent

of communities and homes now without electric service will involve billions of dollars and should serve as a vehicle of prosperity for the power companies and the suppliers of electrical appliances. But even these possibilities, substantial as they may become if realized, seem unlikely to bulk sufficiently large in the total of America's practically immeasurable needs to maintain her past rate of progress and development. Additional factors must be found to add their impetus to the vehicle of American business and material welfare. Of other new industries, however, little can be said. Like everything that is beyond, they have their lure, and speculation on their possibilities may be indulged in freely, but there seems to be nothing tangible as yet to support rational expectations as to the immediate future.

Fields and vistas other than industrial are by no means out of the question. Very real possibilities exist in the farming and export activities of America. The farm problem of the United States has been acute for some years, although, perhaps, in essence it is not quite as serious as the agricultural interests would make it out to be. On the other hand, the economics of the farm situation is so obviously unfavorable to the agrarian districts, that it cannot be as easily dismissed as it is by industrial and banking interests of the East.

There is in a country like the United States a serious maladjustment when industry enjoys the benefits of protection and agriculture bears the burdens of free trade. If a solution should be found, it would undoubtedly result not only in the improved condition of the farmer, but also in a greater home market and a more prosperous nation in general.

But more important than all other promises of the next era of America's enterprise, more subject to wise direction, more easily withered at the root if left to haphazard or opportunistic or traditional methods, is the export trade. It was observed that during the past decade the exports of American industry were among the important reasons for its prosperous condition. And the development of American world trade presents one of the most potent instruments for the prosperity of the future, although it presents at the same time one of the thorniest problems any nation can face in the continuation of its past records of industrial activity.

The world is now only at the threshold of industrial and commercial expansion. The industrial revolution, begun some hundred and fifty years ago, is but moments old in the history of mankind. A small portion of the earth's surface has felt the effect of modernization, and human beings have on the whole

advanced but little beyond the satisfaction of the bare necessities of life. The possibilities of new markets and new industries become overwhelming if even the slightest increase is effected in the demands of all men and women. America is almost a solitary oasis in a desert where life is lived largely on a primitive plane of consumption. The American standards of material well-being are unequaled elsewhere, and for the most part unemulated. Only the consumer markets of Western Europe have as yet shown appreciable areas of cultivation, and even here there is much untilled land. But as time marches on, the frontiers of consumption must be gradually pushed back and the hinterland opened up to civilized wants. History has exhibited this tendency for many centuries, and history moving on the wheels of modern transportation facilities and on the wires and waves of new means of communication has been speeding up perceptibly.

New districts will be laid open; old districts will be modernized; economic missionaries will be untiring and efficient in their efforts. The volume of world trade, fifty years from now, will probably make the figures of today, that seem so gigantic, insignificant in comparison. Treasure-trove of unheard-of wealth lies in the far-flung regions to the north and south, east and west. Asia, Africa, South America are only at

their dawning in industrial and commercial possibilities.

To Europe and America belongs the trade development of the world. The great opportunity is available to these two continents, for within them are the experience, the knowledge, and the instruments of proper exploitation. For the past ten years America has stood pre-eminent, and in some ways America is the better equipped of the two for the future. In others, unless America adopts a realistic attitude towards her international financial relations and to trade policies like the tariff, she is likely to find herself at a tremendous disadvantage.

The American advantages are weighty. Success in the past ten years, competitive advantage which comes from a marvelously perfected industrial mechanism, and plentiful capital for the creation of credits and loans present apparently irresistible weapons for future conquests in world trade.

The European disadvantages are equally weighty. A lack of capital, a war-hiatus during which her foreign markets were lost, industrial methods still unequal to those of America, and internal disturbances have combined to create serious handicaps to Europe in her present bid for foreign trade.

Nevertheless, the future gives no assurance that the

relative positions of the two rivals may not be altered and even reversed. American credit will be available, but if American gold, as is likely, shows no great increase, the credit instrument that existed in the past will not be any stronger in the future. As strength comes back to the tired and wasted body of Europe, American financial superiority is bound to surrender some of its disproportionate strength. Eventually, too, gold must lose its place as the essential basis of currency and credit. The supply will be inadequate for the growing demands of trade, and the mechanism of banking and credit, in spite of its progressiveness, does not promise increased flexibility and speed sufficient to multiply fast enough the effectiveness of gold. Some day a new device will appear; but meanwhile the huge reserves of gold possessed by the United States will be a valuable potential advantage to the country. Gold by itself, however, is only an instrument, and its ownership by America can be advantageous only if its use is effective.

The position of the United States in world trade is dependent upon many factors besides gold, and can as easily suffer as benefit from them. It is not difficult to see from the present international complications that although export activity is the next great possibility for America, it is also the most serious threat

to American standards of living and economic progress that the future holds. The present sufferings are only slight in comparison with the economic evils that can result from the international situation, if it is allowed to develop unchecked by wisdom and forethought. America therefore has a double reason for looking abroad; the vistas that she must evaluate are dual in character. Evil and good are simultaneously present, and it will require some knowledge to separate these two in advance.

The marked interest shown by American business men in the possibilities of world trade does not permit any minimizing of the place that exports hold in American minds. And the dark clouds gathering in the future from that very direction certainly should not lessen concern in this matter. But the necessary understanding of the fundamentals and of the secondary aspects of American foreign trade is neither complete nor general. So important is the role of international trade in the domestic condition of America, and so vital does it promise to become, that Americans must examine the influences which have determined the nation's international economic position in the past and will determine it in the future.

EUROPE AND AMERICA: AN INTERNATIONAL DILEMMA

IV

Europe's Rise and Fall

THE European leadership in world affairs began practically with the discovery of America, and until the outbreak of the War, Europe remained the world's financial and industrial center. There is something provocative in this coincidence, for, just as the beginnings of European prosperity were to some extent due to her connections with the New World, so the prosperity of America has always had in Europe an important source.

World dominance by Western Europe—the sense in which Europe is generally understood in this book —began with the opening up of the sluices of world trade in the sixteenth century by the maritime civilizations of the Hansa, Spain, France, Holland and England. El Dorado during the centuries that followed the discovery of America was Western Europe; and the gold that De Soto had hoped to find in the new world as a yellow ore was not less real for appearing as a row of figures on some English merchant's books. Flashes

of economic development might also have been recognized by the practiced eye in the French Revolution, that blood-spattered apparition behind which arose a politically triumphant middle class. But even this phenomenal increase in Europe's stature was dwarfed into insignificance by what followed after the *Marseillaise*, the Little Corporal, and Waterloo.

After the Napoleonic Wars, there began a century of economic development that altered the face of Europe more than almost any five hundred years before 1815. The change marked in reality a shift in emphasis that had never before occurred in the world, except in minor instances. Agriculture was compelled to make room on its throne for a competitor and, in the end, abdicated as the sovereign economic activity of Europe. The King was dead, but a new autocrat had assumed the purple: Europe had submitted, body and soul, to Industry—and with Industry came relatively inexhaustible sources of wealth, visible and invisible.

At the close of the eighteenth century several important inventions in the manufacture of textiles, such as Hargreaves' spinning jenny and Cartwright's power loom, instituted a vast industrial development in England, and industry began to compete successfully with the ploughshare and the sheepfold as the prime source of wealth. At first gradually, and then rapidly, indus-

try left the peasant's cottage and became established in the large factory unit, devoted exclusively to industrial activity. Specialization and division of labor became possible, and an impetus was given to the invention of a constantly increasing number of labor-saving devices. Thereafter the rapid development of a new order of production waited only upon a proportionate development of the means of transportation and a favorable political situation of peace and stability. With steam harnessed to the keels and wheels by the Fultons and Stephensons, transportation soon became the ready servant of Industry—uncomplaining, capable of record-breaking endurance, and endowed with unexampled speed; and when 1815 took Napoleon to St. Helena and brought peace to Europe, the industrial world came definitely into being on the Continent.

A now familiar situation developed. Changes in Europe were henceforth frequent and radical. The Victorian poet who succumbed to the ideals of his age might very well exult over the apparently unlimited promise of his era:

> Not in vain the distance beacons. Forward, forward let us range,
> Let the great world spin for ever down the ringing grooves of change.

And contrasting the rapidly altering complexion of his period with the relative immobility of other civilizations, he only reduced to an epigram what must have been on the lips of practically every well-fed Englishman:

Better fifty years of Europe than a cycle of Cathay.

England definitely became an industrial country by the first decade of the nineteenth century; so much so, that by 1832 her middle class had at its command sufficient power to enforce a demand for the right of suffrage. The first Reform Bill of 1832 was a triumph of the newer industrial classes, for whom a voice in the affairs of the Government meant leeway for their industrial enterprise and commerce. And their requirement, during the early competitive situation, of a free hand in matters of trade and in hours and conditions of employment, became the war-cry of the dominant political party. The laissez-faire principle of the Liberal Party, stripped of its idealistic verbiage, meant nothing more than "Let business take care of itself!"

The other powers did not remain long behind industrial Britain. France came to productive maturity by the end of the first quarter of the century. In 1830, France was, for better or worse, a country dominated

by the bourgeoisie and ruled by a king who appeared in public with that emblem of middle-class providence, an umbrella. Less than five years later, by 1834, Germany had joined the caravan of economic progress with the abolition of customs barriers between its principalities. After the creation of the *Zollverein*, or Customs Union, industrial development in Germany took its natural course, and was merely accelerated by the unification that followed victory in 1870. Italy and the smaller nations followed suit.

Figures are sometimes eloquent. In spite of the undeniable cruelty of the infant industrial system to its workers and to the craftsmen whom it deprived of an occupation, the population of England was doubled in the first half of the last century; and during the nineteenth century, the population of Europe was more than doubled. London has become a welter of seven million beings from a mere half million in the time of King Charles and the Puritans. The English mines, exploited with steam-power and increasingly efficient devices, yielded, in 1910, ten million tons of iron—six hundred times the amount brought to the surface in 1714.

These figures might very well have concerned Europe alone if the modern economic system were not an international conglomeration of interlocking

interests and complex relationships. The machine knows logically no stopping, and for the large plant, cessation of activities is the severest of industrial diseases. With the growth of specialized industrial institutions in Europe, the output of products increased to such an extent that it became imperative for manufacturers to find new outlets. Domestic markets were exploited in accordance with the standards of the times but were insufficient to absorb the continually increasing output of the new agency, factory production. Sales possibilities were sought in the four corners of the earth.

There was the East and there was the new world across the Atlantic, which had once been the "Dark Sea." Africa for the most part did not yet figure as a market, and Australia became a factor only quite recently. Even the Orient was only slowly and painfully opening its gates to European commodities and gave no great measure of encouragement to the manufacturer who had goods to dispose of and the banker who had free capital to loan at a profitable rate.

At the beginning of the last century the erstwhile colonies of Great Britain were launching into the deep seas of economic adventure with no clear signs of the splendid future ahead of them. They had a potential abundance of raw materials, but for a long time they

needed raw and manufactured goods, and Europe found her first great foreign consumer outlet in the United States. To this rapidly growing market were subsequently added the field of South American trade, when the Latin-Americas ceased to be Spanish colonies and began a varied and vigorous existence of their own; trade relations with the Far East, where valuable concessions were obtained; markets in the British Dominions scattered over the world; and minor consumption areas in Central Africa, opened up by missions whose religious effectiveness has been sometimes subject to doubt, but whose economic significance has never been questioned. In the fifty years between 1830 and 1880, the commerce of Europe had increased eight hundred per cent.

Export of merchandise is only part of the story of Europe's economic exodus, and in any event it could not have reached the proportions it did, if another factor had not operated. Had not European bankers financed industry's foreign consumers, there would have been no effective demand for the goods of Manchester, Lancaster, and Essen. The increased wealth that resulted from the factory system naturally sought the best opportunities for investment, and the emigration of loans from European nations went hand in hand with the exportation of commodities.

In due time, a large part of the capital exported by Europe to the foreign areas of consumption found its way back as payment for goods which Europe had shipped. All borrowed funds, however, no matter what their particular utilization might be, carried with them the obligation of annual interest. Each twelvemonth's period, European capitalists could draw a draft on the nations of the world amounting to many millions of dollars as interest from abroad. This further added to the golden harvest which endowed Europe's nations with increased leisure, improved working and living conditions, better food, and a higher birth-rate.

From the United States especially, other sources of wealth for Europe were also rapidly developed. During the second half of the century the adult population of the Continent and the British Isles, driven westward by famine, political disturbances, racial discrimination, and overpopulation, emigrated in droves to the new land of promise. Such an experiment in pioneering did not, of course, make possible the entire transplantation of every genealogical tree. Wives, families, and kinsfolk remained in the homeland until such time as each humble pilgrim might work out his salvation and fortune. As the American immigrant found employment, he did not forget those whom he had left behind and he sent cash remittances back to

them regularly for their support. To cash these checks remitted by her emigrants, Europe purchased American goods.

With the gradual substitution of the steam-driven ship for the graceful sailing vessel, there followed the gradual replacement of the American merchant marine by the more cheaply operated European vessels. As international trade increased, moreover, the freight charge as an item in international transactions became of growing importance, and with freight charges also increased the concomitant requirement of insurance, the machinery for which was mostly in European hands.

Exactly when Americans began to visit Europe's shores in substantial numbers is difficult to determine. The Americans of the Atlantic Coast were from the very first given to trips to Europe, where they renewed their cultural relations and saw the motherland. The political cord may have been violently severed by the obstetric operation of the Declaration of Independence, but the spiritual tie of cultural continuity was left intact. With the growth in the wealth of American families and the increased speed and comfort of transoceanic travel, overwhelming numbers of recruits joined the annual tourist army and added increasingly to the amount of expenditures made abroad by Amer-

icans. These expenditures appeared on the international ledger as annual service charges which Europe levied upon America.

If there are grouped in one item Europe's receipts from America alone for freight, tourist charges, immigrants' remittances, and insurance, the average annual total in Europe's favor was about $80,000,000 from 1874 to 1895, and about $350,000,000 in the period between 1896 and 1914.

By 1913, the Western European nations could regard their industrial and commercial development with a glow of satisfaction, and many an economic fact modestly concealed among figures could be haled forth to reinforce an already overstrained nationalistic self-assurance and pride.

Europe had been a highly successful group of industrial and commercial units for nearly a century. She had produced a surplus of wealth that made the world her debtors. She was receiving each year handsome tribute in goods and gold from the young countries that had drawn upon her exchequers and were now engaged in satisfying the annual interest requirements. Economic seers who had not taken into consideration latent commercial and political rivalries could have predicted unlimited wealth, power, and happiness. In terms of international trade and control, Europe at

the beginning of the second decade of the present century was apparently headed for economic mastery of the earth. Raw materials would pour into her warehouses while she financed the world. The sound and rhythm of her machines would become louder and more rapid, and to this rhythm the tribes of men scattered on the six continents would dance without end.

The cessation of the World War saw a prostrate giant rubbing his eyes, and first awakening to a sense of his defeat, to the incredible magnitude of that defeat. Of the obvious destructiveness of the cataclysm that was let loose upon Europe on the fateful day when the Archduke Ferdinand of Austria was murdered in Serajevo by a fanatical nationalist, it is unnecessary to speak except in passing. The human tragedy is still too close to the present generation; and even if there had been any inclination to forget, a recent deluge of war literature and drama has revived the scenes in all their gruesomeness. It is apparent, also, that a cataclysm that measured its extent in terms of seventeen million people either killed or disabled and a destruction of property and capital assets approximating seventeen billions of dollars in the north of France alone could not fail to leave its mark upon the economic life of the survivors, but must in the nature of things have signi-

fied a transformation truly revolutionary in character. Great, however, as these losses were within the confines of each nation, even more significant was the rearrangement in the status of international trade which almost every European nation was compelled to face. The loss in the international economic and financial position of Europe was indicated neither by the forest of crosses in the vicinity of Verdun nor even by the dead silence of the many destroyed and disabled factories. The extent and character of the loss was to be found less spectacularly as figures in the international ledger.

With Europe's attention focused upon the battlefield which drew its jagged line across the northern part of France, it was to be expected that the foreign markets, which had for decades been developed so carefully and successfully, should be neglected. Inasmuch as people consume in wartime as in peacetime, the needs of Europe's customers sought new sources of satisfaction, and when, in 1919, the Versailles Treaty proclaimed a state of peace, there was, naturally, no automatic re-creation of pre-War markets. The development of manufacturing in some of the areas that had served as Europe's overseas outlets, especially in China and India, and the replacement of European by American sources of supply combined to restrict definitely the export field open for European exploitation. And, on the

other hand, under pressure of the extraordinary requirements of waging war, Europe was compelled to place orders outside of her own boundaries in increasing amounts as her needs became greater and her industrial machinery less capable of satisfying them.

The need of imports that could not be paid for by corresponding exports presented a problem of the greatest magnitude, and from 1914 to 1918 Europe resorted to a variety of measures in order to make effective her demand for raw material and finished goods.

Almost immediately after the declarations of war there began a resale of foreign securities of European investors, and likewise an exportation of gold. But even the resale of securities and the unlocking of the sacred treasuries were insufficient to provide with the necessary goods twenty nations busily engaged in annihilating hundreds of millions of dollars' worth of property in a single day. Europe, besides receiving substantial domestic loans, was compelled to borrow from abroad not less than ten billion dollars for the provisioning of the holocaust.

Nor did the situation change appreciably in the period that immediately followed the war. True, there were no longer men and cities to be blown to pieces with the assistance of fresh loans; but the year 1919 witnessed the painful reassembling of the European

body. For four years the ploughshare had rusted in the furrows of Europe's fields, wheels in the industrial plants had been still, and much of the peace machinery had been deteriorating with disuse. Large sections of agricultural land, valuable mines, and important industrial centers had been damaged or completely destroyed. Many industrial plants had suffered from disuse and failure to maintain standards required by modern enterprise. Working capital had practically disappeared and savings had been absorbed by internal loans floated for the purpose of prosecuting the war. With the disappearance of the gold reserves, moreover, paper money had taken the place of specie. At the close of the war, the stern discipline of the government disintegrated, and, stimulated by misdirected and unpatriotic individuals, there ensued in many of the nations an orgy of inflation that resulted in the tragic effacement of the savings accounts of millions of thrifty people; and this too tied Europe to a creditor's purse strings.

From a group of creditor nations, Europe in the course of a five-year period had become a harassed debtor. The reversal was made complete by the shift in her export-import status which now showed, on the one hand, a material reduction of goods sent abroad and, on the other, a large excess of imports from other areas. Like the young American nation of a hundred

years ago, Europe in 1919 was simultaneously saddled with a debt and an import balance.

When the Young Plan was signed in Paris in 1929, there were those who hailed it as the real as contrasted to the purely formal close of the War. The year 1919 did not mark the end of Europe's troubled state of affairs, and, as a matter of fact, until the present day Europe is still dependent upon capital imports for the rehabilitation and proper operation of her industrial machine. In the past years, moreover, reparations payments by Germany have been made possible, for the most part, only by American loans; and Europe's dependence upon those loans is well known.

Gone is the net credit balance which represented net debts due Europe and in its place, towering in proportions, stands Europe's debt abroad. To England, the War gave increases in territory that can and probably will bring riches to the children or grandchildren of her present industrial leaders, but it also brought a present annual debt payable to foreign accounts where before there had been obligations due her. France, too, was a gainer in raw materials and territory. Her much-desired Alsace-Lorraine, with its iron ore and potash fields, came back to the Republic, but with it there has come a reversal in her international financial balance. For Germany, the War and its aftermath have brought

a multiple misfortune of defeat, loss of territory, especially large coal, iron, and potash fields, political dismemberment, a reparation accounting, and finally, a heavy indebtedness which has been the sharpest danger to political and economic stability in Europe.

At the same time, Europe's pre-War export balance has suffered a change that has converted it into an excess of imports. Europe has been, therefore, not only borrowing capital but also maintaining a liability in her export-import merchandise relations. All told, Europe's star which once was so bright, has, at least for the time being, set. Another shines in the skies across the Atlantic, assuming its radiance and reputed influence.

In international barter, bodies do not glow with their own as much as with borrowed light. They are interdependent in a very complex way. Europe's economic destinies had been intertwined with America's for practically three centuries of colonization, trade, and shipping; and it is a historical fact that but for the ties between them neither the Old World nor the New could have attained to the industrial and commercial summits it reached. These ties became closer, but basically different in character, when the requirements of the War made Europe dependent upon the rest of the world for capital and goods, and deprived her of portions of her cherished markets.

V

America's Supremacy

TODAY in business America stands pre-eminent, if not supreme. After a steady development up to the War, the events of that portentous circumstance poured into the hands of the United States wealth, industrial accomplishment, and a new status in the trade of the world. The completeness of the change has been such that even Americans are hardly aware of its causes and consequences. For Europeans, it seems to have been wafted into America upon a magic carpet; no matter what explanations are offered, in their estimation there is always something mysterious about the phenomenon.

To America herself, when an explanation is attempted, the visible support of her prosperity seems to lie in mass production, and in the benign influence of the tariff barrier that protectionism has maintained in the teeth of the rest of the world. In the opinion of Europeans generally, the circumstance of a prosperous America is not so much due to her highly developed

production system, as to her natural endowment of raw material and fertile land. What, in addition, this sub-soil has not contributed, those invisible lines, latitude and longitude, furnish. Europeans point to the geographic fact that, in terms of latitude, the heel of Italy, which is practically the heel of Europe, is only the center of the United States; that consequently the huge arable regions of the United States have more sunshine throughout the year than the much longer exploited and more frequently ravaged fields of Europe. Good fortune—"American luck"—and the absence of intra-national tariff are also considered factors favoring the nation that only a century and a half ago had been a colony of England.

Neither the usual American nor the European diagnosis of America's past and present is complete or entirely valid. Tariff shibboleths and the magic syllables of Mass Production are in themselves only conspicuous details in a forest of facts and problems. Protection in order to be a marked commercial boon must be able to protect without injury to the nation. Mass production without outlets is a grandiose futility. Mass production is, moreover, not an agency to be called into being by an executive fiat, but an expensive method requiring financial support and nurture. Geographic explanations are even less adequate. During

America's lean as well as her fat years, latitude and longitude remained notoriously constant. Kansas and New York were limited by the same degrees in the dire year of 1893 as they were at the height of prosperity in the past decade. Even the fertility of the land has varied little in the past hundred years or more, except perhaps that sections of the virgin territory have been fairly well exhausted and some degree of intensive cultivation has become necessary. In the story of the phenomenal rise of the United States, undoubtedly geographic position and natural resources contributed basic factors, but these in themselves would not have been sufficient.

The continuous westward movement of the frontier in the nineteenth century opened up the large areas of fertile land and the new sources of minerals that became basic in America's development. Production of food was the first economic activity to feel the effect, and almost to end of the nineteenth century, America was primarily an agricultural country. Food production became not only sufficient for the needs of the population but also for a substantial exportation, and in this first stage the fertility of the soil was the prime factor.

As industrial development, particularly in the latter part of the nineteenth century, proceeded, the avail-

ability of raw materials became a second important element; the country was especially fortunate in being favored with quantities of coal, iron, and copper.

Neither the agricultural nor the industrial development of the United States would have been possible, however, without the expansion of the railroad system, and it was rapid transportation of passengers and freight that gave the maximum practical value to the elimination of interstate tariffs by the American Constitution. Railroads brought the raw materials to the scenes of their conversion into manufactured goods. Railroads enabled the manufacturers of any one center to reach the markets of the entire country and made available for every product the consumers of a territory almost as large in extent as the whole of Europe.

Undoubtedly this unified market is unique in the world's history. Nowhere else is there an area that stretches three thousand miles from east to west, and fifteen hundred miles from north to south, in which every hamlet, village and town can find its place in the sales chart of some single industrial institution. There are of course other countries as large as the United States, or larger, and similar areas with a greater population. But where tariff barriers have not subdivided the whole into a number of smaller principalities, the lack

of adequate transportation has made industrial intercourse on a large scale almost impossible.

Although the basis for the rapid growth of the United States was American, it was Europe that furnished the instruments for the development. American natural resources lay in profusion, awaiting the sound of the pick and the hiss of the steam-shovel and the railroad locomotive.

As there was added to the normal birth-rate of the country the influx of European immigrants, so characteristic of the United States in the past, the pioneering of the American nation grew apace. Approximately thirty million Europeans emigrated to America in the eighty-three years between 1831 and 1914. They were for the most part adults, who brought with them, aside from some savings, an adult ability to work, as well as an adult capacity for consumption.

Europe sent portions of her able-bodied population to America; but that was not all. America also absorbed a large proportion of the surplus of capital that had accrued to the nations of Europe following the Industrial Revolution. Practically all the railroads of the United States, at least for the first three quarters of the nineteenth century, were financed by foreign capital, at first predominantly British, later on also French, German, and Dutch. As early as 1836 a railway loan

was floated by Baring Brothers, an English firm, and as late as 1929, the Atcheson, Topeka, and Santa Fe Railroad was still considered by the French citizen as his railroad, bought and paid for by French capital and lost through the adverse circumstances of the Great War. Nor was European financing limited to American railroads.

In time, industrial institutions of every character began to draw a large portion of their funds from the capital accretions of England and the Continent. At the very beginning of the last century, there were already indications of the future role of European investments in American manufacturing, and in one of his penetrating comments on the early American political and economic scene, in the "Report on Manufactures," Alexander Hamilton gave due emphasis to this role.

By 1825, America's sale of her securities abroad, i.e., importation of capital, had become a seemingly fixed national habit, and by 1837 European loans amounted to what was then a large figure, approximately two hundred million dollars. In spite of the setbacks of the panic of 1839 and of the first years of the Civil War, the exportation of securities continued in constantly increasing amounts, until by 1900 the total European investment in America was nearly three and a half billions of dollars. When the tide of America's capital

imports finally subsided at the beginning of the World War, America's indebtedness to the investors of England and the Continent totaled, in conservative estimates, about five billions of dollars; although by then American investments had created a counterbalancing credit of $2,600,000,000.

For the major part of this period America offered a large and attractive market for European goods. Practically from the beginning of American history, trade had been active between the hemispheres. Before 1821, America had an annual surplus of imports worth about eighteen million dollars, although neither imports nor exports were large according to our present standards. After 1821, goods and raw materials came to America in increasing quantities, until they averaged an annual value of twelve hundred million dollars for the period between 1896 and the beginning of the War in Europe.

Until 1873, indeed, with the exception of the years between 1838 and 1849, the United States had a persistent excess of merchandise imports over exports. Up to this time, the amount of European capital borrowed by America had not yet reached so huge a figure that the interest payments offset the annual importation of new loans. Temporarily, it had been possible to pay by means of additional borrowing, but eventually a point

was reached when new importations of capital were more than offset by the increased obligation for interest which had accumulated on previous loans. In the period between 1874 and 1895 the United States had an average annual excess of interest payments over new capital imports of forty million dollars, and for the eighteen years that followed this amount was almost tripled.

In 1874, America became an exporting nation, and since that time, except for four years in which an import surplus recurred, a state of affairs has existed which has endeared itself to the heart of the American business man: "a favorable balance of trade." Like any other superstition, implicit faith in the magical efficacy of a "favorable" balance of trade dies hard. Actually there was nothing especially felicitous about the situation. It was nothing more than an indication of America's debtor status.

America's indebtedness had increased strikingly. The average annual interest payments rose from three and a half million dollars in the period of 1821-1837, to a figure almost thirty times that size between 1873 and 1895.

Heavy interest payments to Europe did not represent the only adverse charge in the American international balance. With the obsolescence of the American clipper

ship, there came a corresponding alteration in the nation's transport status. This changed from a credit to a debit as American business relied more and more upon the use of European bottoms. The halcyon days of America's transport supremacy were ended. Freight charges became a growing item to be liquidated by America's surplus of exports.

As immigrants established themselves in their American homes, the bulk of their remittances to relatives and friends greatly exceeded the capital brought by the latest arrivals. The difference comprised an additional debt to Europe. And after the middle of the century still another form of indebtedness came into prominence when the American tourist began a steady onslaught on the capitals, historical sights, and shopping centers of the Old World. He brought back with him European styles and ideas; he left behind him American obligations to pay.

From 1874 to 1913, America was the beneficiary of a "favorable" balance of trade; that is, for almost each of those years, her exports exceeded her imports. It is questionable, however, whether the American business man would have looked with equal complacency upon the international balance sheet, which would have told him that by 1913 America was incurring tremendous annual obligations. The export surplus was

no God-given privilege to supply the world, at a profit, but a perfectly normal requirement for an excess of outward shipments of merchandise to offset claims for interest and services by foreign creditors.

At the same time, the equilibrium so established does not give the best indication of America's growing industrial and commercial greatness. Every dollar represented by America's debt was a dollar of investment in American transportation or industry and multiplied itself many times. As the debt grew larger, enterprise and productive machinery in the United States became correspondingly more efficient and greater in scope. The loans financed American super-production; that typically American colossus, mass production, was nurtured in its infancy and supported in its youth by Europe. That Europe in recent times has at last begun to adopt American large-scale production with the assistance of American capital, is, therefore, not without its irony.

Finally, from the point of view of American industry, an excess of exports was in many ways beneficial, for it meant that the American markets were being amplified by foreign sales opportunities. But American industry was by no means dependent upon foreign markets alone. A constantly growing population offered larger and larger opportunities,

and as the consuming power of the average American increased, there came an improvement in the quality as well as in the quantity of the domestic demand.

In spite of the constant influx of immigrants before 1914, American labor was still at a premium in comparison with labor in the much more densely populated areas of Europe. His wages gave the worker relatively great purchasing power, which was increased still more when large-scale production advanced his income further. And the necessity of using available labor in the most economical way stimulated American ingenuity to make machinery more effective.

By 1914, American progress in the field of economic endeavor was thoroughly assured. That there would be a normal advance on all lines was to be expected, but there was little possibility of any radical transformation, if one was to judge by previous developments. The extent of America's purchasing power and the productivity of her industries would continue to attract European wealth in increasingly larger quantities. Interest charges would naturally mount. Immigration, tourist travel and transportation, increasing normally, would create greater and greater obligations to Europe for services. To meet interest and service charges, America would maintain an increasing export

balance, and remain on her pedestal of a "favorable balance of trade."

Pestilence and famine having in recent times receded into the background, war is the greatest destroyer of wealth that the modern world knows. For American business, however, the War was the creator of orders, and the flood of demand that came to those industries that could adjust equipment to the manufacture of war materials was vast as measured by any standards so far known. The flood reached high tide when the nations in Europe, Asia, and South America, which had been until then dependent upon British, French and German goods, suddenly found themselves stranded, and were compelled to have recourse to the United States. In its turn the cry for American foodstuffs, American copper, American cotton, and American manufactures gave notice to industry to take on more employees, introduce more labor-saving devices, and work on double shifts. If there is good reason to believe that even without some such cataclysm as that of 1914, America would in time have arrived at economic supremacy, it is nonetheless certain that it was only as a direct result of the War that the turning-point in her career as an international power occurred as early as 1914–1918.

American industry served as an excellent foundation upon which the emergency superstructure of an in-

creased foreign demand could be built. In the five years from 1915 to 1919, America's exports to the world increased from $3,600,000,000 to $8,100,000,000—figures that signify a tremendous export expansion when put beside the average annual export of $1,700,000,000 for the eighteen years previous. The requirements of superproduction involved, of course, an enlargement in America's demand for raw materials from foreign sources, but there was still left a total net surplus of $15,715,000,000 in exports for the period between 1914 and 1918.

Hard-headed business sense regulates economic intercourse among nations. America was an eager participant as a non-combatant in the greatly increased industrial activity of the world, but was naturally insistent upon payment for her products. The American seller remained an individual, even if the buyer had become a European nation. Nothing Europe could do—neither the frequent resales of American securities by her people, nor the heavy shipments of gold that took place in 1915 and 1916—was sufficient to compensate for the immense quantity of imports she was compelled to receive from the United States.

But war does not stop because of an empty pocketbook; so long as credit is good, destruction can continue. As soon as the wealth of a belligerent nation

began to be exhausted, it proceeded to use the capital of the United States. French, Belgian, English and other Allied loans were floated in America. And to this demand were soon added the capital requirements of European neutrals, Canada, and South America, now violently released from Europe's financial apron-strings and left to shift for themselves. Loans to the extent of one and a half billion dollars in 1915 and over two billion dollars the next year were floated in America by foreign countries.

Once indeed America had begun to participate actively in the War, the public flotation of European bonds became, for the most part, unnecessary, and direct advances by the United States government took their place. Liberty Loans and other financial measures assembled tide after tide of credits, which the American government then proceeded to pass on to her Allies. In 1917, the Government's loans to her Allies totalled over three and a third billion dollars, and even this sum was surpassed in the last year of the War by nearly a billion. Nor did the end of the year 1918 see a complete cessation. The sour peace-year of 1919 was marked by a further government shipment of two and a third billions, aside from some four hundred million dollars of private security flotations.

When the smoke of battle had subsided, America,

aside from having in her possession a major part of the world's gold supply, found herself an enormous creditor—especially of Europe. Previously a debtor to the net amount of two and a half billion dollars, the United States arose from the European catastrophe a creditor nation to the extent of fourteen billions.

A net change of over sixteen billion dollars in the international financial status of a nation must appear fabulous, and could not have come solely out of the gold reserves of the Treasury. It is of course difficult to trace quantitatively the sources of income and capital which made this transformation possible. Undoubtedly, the tremendously enhanced productive capacity of the United States and the profits ensuing therefrom furnished a portion of the capital that was made available for the world. Since labor was plentiful and wages were high, savings accounts also increased, and these became another source of credits for the belligerents. Then, too, the credit structure of the country was just then receiving the benefit of the recently introduced Federal Reserve system. Bank reserves were reduced and credit facilities enlarged. With the increased circulation of money and credit, the same supply of currency was put to more use, and credit was therefore made available for other purposes. For the first time, too, since the unsuccessful attempts during the Civil and the Spanish-

American Wars, the citizens of the United States participated enthusiastically in savings campaigns. By means of War Thrift Stamps and Liberty Bonds, the personal resources of the country were made available to the Government on an unprecedented scale. Finally, in the three years of 1915, 1916, and 1917, America received net shipments of gold for her credit structure to the approximate amount of $1,700,000,000. To the extent that gold serves as a basis for credit, America's credit-base expanded still further.

An abatement in Europe's demand for merchandise and loans began to make itself felt after 1919. The requirements for rehabilitation, great as they were, naturally did not equal those for rapid destruction. Nevertheless, America continued to be the world's financier and at the same time did not surrender the privilege of having an export surplus in her relations with the collective nations of the world. In 1920, there was still an export of eight and a half billion dollars' worth of merchandise and a billion dollars in capital; and from 1920 until 1929, there persisted an average annual export surplus of approximately three quarters of a billion dollars in merchandise and $800,000,000 in loans. America remained practically the only source of capital for rehabilitation in Europe and for economic development in the rest of the world. Her net long-

term creditor position, even after the considerable paring of the American government war-loans, was represented by over sixteen billion dollars in 1928. At the same time, protectionists are, justly or not, in a position to point with pride to the American fetish of a "favorable balance of trade," which has remained intact. The gods have been kind to the United States. America's general prosperity within the country has been paralleled by a prosperous state of affairs in her international trade relations.

Economic and business thinking, of course, has never been free from a certain residue of naïve faith and mysticism, but the welfare of America and of the rest of the world is too important to be entrusted to such uncertainties. The character of America's internal prosperity is receiving careful attention in many quarters. America's international status must also be subjected to treatment along realistic lines of inquiry.

Such an attempt must seek first of all to find how America's present anomalous position in international finance has been maintained. What elements have entered into its composition? What relation exists between these elements? If in the course of the investigation, important questions arise and significant possibilities—dangers perhaps—reveal themselves, the inquiry will have been more than justified.

VI

The Balance of Trade

INTERNATIONAL financial relations are recorded in a "balance of trade." Although people are only too prone to speak of it with the dramatic qualifications "favorable" and "unfavorable," it is literally a double-entry ledger, in which debits and credits must somehow balance each other. The mysterious analysis of international business is a sort of glorified bookkeeping.

Since there must be an eventual balance between the incoming and the outgoing items of the international trade of a country, it seems contrary to all the principles of arithmetic for a nation to insist upon maintaining at the same time both a surplus of interest receipts and a surplus of exports. In its simplest terms this would be equivalent to lending money, insisting upon repayment, and at the same time forbidding the debtor to earn the money wherewith to repay.

If it is unnatural for a creditor nation to maintain an excess of exports over imports, then indeed America

has accomplished the supernatural. Americans have never been particularly interested in examining the mainsprings of their international position. It must seem strange, nevertheless, even to Americans that America's export surplus has not been radically affected by her present status as the greatest creditor nation in history. Indeed no such surpluses of exports were known during the entire period between 1874 and 1914, when the country was deeply in debt to Europe and had to make payment in goods, as have become matters of common acceptance since 1919.

Even in the character of the exports themselves, the change in the American international status seems to give an anomalous and contradictory story. Up to 1914, the major portion of America's exports consisted of raw materials and foodstuffs. Her fertile and arable land was an immense granary for the densely populated, non-agricultural areas of Europe. Her mines and oil reserves supplied the raw materials that English, French, Belgian, and German manufacturing centers required for the continuance of their activities. Since 1919, food exports have decreased, because of the increased consumption in America and the extensive reversion to agriculture which necessity has forced upon Europe. Raw materials have maintained their flow—but have declined in relative importance because the

total of exports has increased so greatly. It is in manufactured goods that exports have shown their greatest expansion, and it is significant that America should make its greatest strides in those very products which by their nature should come most directly into competition with European labor, European capital, and the entire European industrial machine.

It would be tempting indeed to conclude that the "unnatural" status of America's creditor position only means the decent burial of one more principle no longer applicable to world events. And, if this should be the case, the industries producing for export may rest secure in the expectation that the conditions of the past decade which gave them the rest of the world as their oyster will find pleasant continuation in the ten or twenty years to come.

Unfortunately, although theories may go into discard, arithmetic still remains the same, and with the assistance of the two elementary operations of addition and subtraction, one may find that America has mixed the oil and water of a creditor status and an export surplus only temporarily. The circumstances that have made the situation of the past ten years possible, although obscure in the minds of many, are not the tricks of a magician. They can be analyzed and reduced to simple matters of fact.

The Balance of Trade

International trade is the most complicated field in the science of economics, and no part of it is more vague than the character of the "things" exchanged. To the majority of people, international trade consists of the purchase and sale of tangible goods—steel, automobiles, copper, grain—things that can be seen by the eye and felt by the hand. Nevertheless, for nearly a century some of the most important items of international commerce have been of such a character that they could neither be seen nor felt. These are the so-called "invisibles."

In the balance statement of every nation, there must be listed many items, requiring some manner of payment or receipt, which in themselves represent neither steel nor automobiles, neither grain nor copper. Every bill which the business institutions of one nation send as a charge for services to the business institutions of another is reflected in the sum total of the international trade balance. Every ton of cargo that is shipped upon some steamer not only represents the necessity of payment for the goods themselves, but also creates a charge for transportation. Underwriters' commissions, insurance services, charities, missions, cablegrams, radiograms, the sale of patents and copyrights, telephone services—all are "invisible items" and cause the transfer of funds or, more generally, the equivalent of funds.

Then, too, there are still millions of people in the United States who have family ties with some less fortunate individuals or dependents, in Europe mostly, and a large amount of money is shipped to the latter annually.

No American, finally, can have made a trip abroad in season without having experienced the sensation of plowing his way through a horde of Americans. The annual growth in the migration of American tourists has been a striking phenomenon for a great many years, and in the past decade has reached unusual proportions. Since 1920, at least one hundred thousand people have been added to the annual American expeditionary force and more than three hundred and fifty million additional dollars have been sacrificed at the altars of European culture and European amusement. The annual migration of Americans now comprises about four hundred thousand people.

It may seem a trifle absurd to the European who finds his favorite haunts crowded with Americans, to hear that the expenditures of the visitors—seven hundred and eighty million dollars in 1928—are an invisible item. The purchases of services made by the American tourists may be apparent in a thousand different ways, but as these expenditures are neither for the export nor the import of goods, since they cannot

always be tracked down to the smallest of coins flipped to the least of French waiters, and since, in short, statisticians cannot weigh and measure them to the exact dollar, they too are, in the argot of the international trade balance, "invisible."

America's debtors do not, of course, monopolize all service charges, and America's own receipts for services have reduced the net total services for which the country must make payment by about one half. Even the residue of services, representing practically the only net favorable item for the debtors of the United States, has been almost nullified by the obligation to pay interest on loans and securities held by Americans. Service charges have undoubtedly been of marked assistance to these nations, but they have not been sufficiently large to do much more than balance the payments of interest and principal that have come due annually to America as their creditor.

Before weighing the effect of international interest charges in the balance of trade it may be useful to warn against a confusion existing sometimes anent the matter of international indebtedness. Except when specifically referred to as such, the obligations of one nation to another are not concerned merely with loans made directly by one government to another. Europe's indebtedness to America is represented mostly by the

ownership of European securities, private or governmental, by American individuals, banks, or corporations.

The net long-term indebtedness of the world to the United States was sixteen and a half billion dollars in 1928, and the interest collectible by America each year since 1922 has made up a net favorable balance of over six hundred million dollars; since 1927 the balance has been well over seven hundred millions.

It becomes clear, then, that there must have existed some other means which enabled America's debtors to purchase American goods in excess of sales to the United States and at the same time to pay interest and part principal when these were due. This is especially relevant to Europe with its eleven billion dollar debt in 1928 and its dependence upon imports from America.

One means of settling an adverse balance before the War was the shipment of gold. It must be perfectly obvious, however, that the total liabilities assumed by a nation's business were not settled entirely by the shipment of bullion. The debts which a nation accumulated were balanced against the credits which it developed, and only the difference between the two was settled by actual shipment of specie. In Europe's attempt during the past ten years to balance her ad-

verse international status, gold could have played, for the most part, only a minor role. The world supply is limited, and only a portion of it can be exported without affecting the financial position of the exporting nation.

At first, the absence of a gold monetary standard in many of the European countries caused an exportation of gold to the United States. The withdrawal of gold from circulation, Germany's loss of reserves and the substitution of foreign assets for bullion in some countries made possible unusually large shipments of the metal. In 1921, gold to the amount of over six hundred million dollars was received by the United States. The continuance of such a situation, however, would have involved a serious drain on the reserves of Europe, and possession of gold was assuming an increasingly important place as European governments began to stabilize their currencies and restore the gold standard. Those who directed financial policies were unwilling, and naturally so, to weaken the structure upon which confidence and financial stability depended. It would have been impossible for Europe to have balanced her annual debt to America through such shipments without at the same time destroying the foundation of her own business structure. The movement, therefore, diminished, even to the point

of reversing itself to the extent of $272,000,000 in 1928. But already by 1924 gold had actually become an additional import from the United States, which had to be balanced by Europe somehow.

One by one the items in America's international trade balance have been checked off against each other. Interest receipts have been balanced by service charges; gold has been considered and found of minor importance in explaining the lack of balance in the American international ledger. But exports of merchandise exceeded imports by some seven or eight hundred million dollars. Only one large factor remains that could have balanced this—loans. Annual loans from America have practically equaled the difference that existed between the values of America's shipments and receipts of goods. It has been the willingness of American investors to continue making loans that has made it possible for America to maintain an export balance in spite of a creditor status. Throughout the past decade, except in the unusual year of Germany's economic disaster and of the Ruhr invasion, 1923, advances ranging from over six hundred million to one billion dollars continued without interruption; and but for this persistence of loans, America would not have been able to receive interest and capital re-

payments while maintaining an export surplus of goods.

A situation in apparent contradiction to mathematical principles is therefore explained. Fresh loans have made it possible for America to maintain both a creditor status and an export balance during the past decade: America has directly or indirectly financed Europe's purchases. A policy has been pursued abroad by America similar to the deferred payment plan in the home market.

History repeated itself. In the early part of the nineteenth century Europe had found it possible to sell goods to an impecunious and struggling young nation by providing it with loans with which to pay for imports. A hundred years later the infant, grown to maturity, employed exactly the same practice in selling to a group of adult nations whom circumstances had brought to second childhood in international trade.

For many years in the nineteenth century, America's position was that of a debtor nation which at the same time endured a surplus of imports over exports. The tables have been turned. At present, Europe is a group of debtor nations which also endure import balances. It was not a wholly pleasant situation for the young nation, and it is not a particularly pleasant prospect,

as we shall see, for Europe. But history goes on to show that America after 1873 settled her interest obligations by exporting a surplus of goods to her creditors in Europe. Europe can meet interest and part capital payments by shipping a surplus of merchandise to her creditors in the United States. Moreover, Europe must!

VII

The Great American Import Surplus

It will be remembered that in the international situation of the United States during the nineteenth century, a point was ultimately reached when the annual interest payments far outstripped new importations of capital from Europe. A similar disparity between new loans and annual interest payments looms in the future of America's debtors. And just as in the past a surplus of obligations remained which America had to pay with shipments of goods, a time will come soon when her debtors—especially the greatest of them, Europe—will be forced to balance a similar surplus. Eventually there must arise a barrier of interest which will alter the flow of present international payments and convert America's surplus of exports into one of imports.

It is clear by now that many millions of dollars on the credit side of the American international ledger, representing the sale of goods, would be definitely out of balance if the annual export of new capital did not

compensate for obligations that foreign debtors fail to meet with goods. When in the future the export of new capital is decidedly below the level of foreign interest obligations, there will have to be a settlement by means of shipments of goods. It will be no longer possible for America's debtors to balance their accounts with her by the quaint method of receiving more loans from her.

It is not of course to be expected that loans from the United States will cease altogether. The assumption of a cessation of American investments abroad must be excluded from any realistic point of view towards international affairs. Such a forecast would take into account neither Europe's needs for rehabilitation and working capital nor American industry's intention to sell its goods everywhere, even if it has to finance the purchases. It is only doubtful whether the present rate of loans, approximating a billion dollars a year, will show any enlargement great enough to offset the regular rise of interest payments on the part of America's debtors. There is no evidence whatever of a necessary increase in loans, whereas such loans as continue to be made tend to raise interest charges in arithmetical progression until in some year to come the interest must exceed the fresh loans.

The year 1929 furnished an interesting illustration

of the problem that is imminent. As investors and speculators competed with one another in pyramiding the prices of the "blue-chip" securities, the effects upon Europe became marked. During this gay processional of mounting stocks and reckless speculation, Europe became the prime victim. All her economic sins suddenly appeared scarlet in the eyes of the investors of America. The type of financing that Europe likes and to which she has been accustomed had a very limited appeal to American investors. With the stock market boiling, the possibilities of the country to all appearances only hinted at, and security prices seemingly justified for a score of reasons, domestic opportunities looked far better to the American investor than investments in an uncertain, economically unsettled Europe. The exchanges of London, Berlin, and Paris sagged sadly as American stock prices were registered daily by the press of the world.

American credits to Europe fell off materially throughout the year. As there was no lowering of the tariff barrier, there was no chance for marked increases of European exports to pay for purchases of American goods. The result was in accordance with the principle laid down in this chapter. American exports to Europe showed a decrease in the latter part of 1929 as contrasted with the previous year.

The persistence of the 1929 stock condition for a number of years would have signified financial starvation for Europe and an import balance in the very near future for the United States. The change in the stock market condition augurs well, temporarily at least, for Europe—provided of course that it is more than a mere hiatus between two phases of the great American bull market. At the same time, it is to be remembered that ultimately an increase in American investments in Europe must have the effect of merely increasing Europe's interest obligation, thereby aggravating the problem of adjustment when it is finally to be solved.

All indications are to the effect that American annual investment in foreign countries will remain in general fairly stable, not rising much higher than a billion dollars nor falling lower than half a billion. But if such figures are maintained, the annual interest and part principal receipts must soon reach a figure of a billion dollars; as the base upon which interest is calculated broadens year by year, the interest itself will increase. Each year, while the loans maintain one monotonous level, there will be added to the coupon rate of the outstanding obligation to America the new interest charge created by the new investments.

A billion-dollar interest addition does not, however, exhaust the flood of payments that is gathering east

and west, north and south to deluge the American nation. So far only the returns on European investments by private Americans have been considered. Another stream of obligations must annually pour into America from the war-ravaged nations of Europe in the form of war-debt payments. Large as they are now, amounting to some two hundred million dollars, a pre-arranged plan will make them progressively larger. The schedule determined by Washington and the European nations calls for an increasing scale of interest and part capital payments, and the next ten or fifteen years will bring almost twice the present sum to the coffers of the American Treasury. The amount may even become substantially greater if the commercialization of Germany's future reparations enables her creditors to liquidate portions of their debts to the United States. Altogether, then, it is a fairly conservative estimate that sees the accumulation of a billion and a quarter additional annual interest as the future of the United States.

It may be difficult for a public nurtured for half a century on a favorable balance of trade to accept the pessimistic implications of these forecasts. But it is nonetheless certain that if the interest and part capital payments of the world to America mount steadily until they reach over two billions of dollars by 1940 and two

and a half billions by 1945, such an obligation by foreigners will force America into a position of accepting goods in payment; unless there should take place a general repudiation of obligations to the United States government and to American investors, for which there is little precedent and less prospect.

A two-billion import balance is a depressing prophecy indeed, and as a matter of fact, it is hardly possible that the American import balance will reach such a figure. There will still be a sufficient export of capital to offset a considerable fraction of the interest receipts. If loans maintain their present rate, the net import balance that America will normally have to accept will amount to one billion dollars.

Unfortunately, however, in terms of our present balance of trade, this import surplus assumes twice as much weight as is apparent in the figure itself. On the unknown but certain day when America experiences a conversion of her export surplus into an import balance of a billion dollars, either the exports or the imports will actually show a net difference of *two* billion dollars. If imports remain at four billion dollars, exports will have to be reduced from five billion dollars to three. If the exports remain at their present value of five billion dollars, imports will have to rise from four to six billions.

The barrier of interest that is rising daily around America promises therefore to present serious obstacles in the path of American business. The deletion of two billion dollars from an existing five-billion export market represents a forty per cent reduction, and the American export market is of tremendous importance to the nation—an importance, moreover, that is increasing. The emphasis placed everywhere upon foreign markets, and the esteem in which the favorable balance of trade is held, are indications of the general recognition of that importance. The addition of two billion dollars of imports, on the other hand, means an increase of fifty per cent, and such an influx of goods, unbalanced by a proportionate rise in exports, must have an adverse effect upon American industry. Capital and labor alike would feel the brunt of the burden of European competition.

The adverse effects of a decrease of exports or of an increase of imports may run like wildfire through the entire commercial and industrial structure of the country. Such a situation is surely not to be dismissed with assurances that America is economically invincible. All the Goliaths of world history employed the same kind of fallacious reasoning!

VIII

The Case for American Tariff

It would be the height of unreasonableness to expect that the American nation will stand calmly by while an import balance topples over her and threatens her entire business structure.

It is indeed a curious contrast that the world situation presents. Europe, which flourished as a group of creditor nations for more than a century, accepts the replacement of her position as creditor by an equally reputable debtor status with bitterness and resentment. America, on the contrary, during all the years when she was a debtor nation, accepted her position with equanimity and even rejoicing. It was not merely that custom and hope kept her contented. It was not merely that she was forging ahead industrially, as a progressive and rapidly developing nation. To America the disrepute of her debtor status was obscured by the glorious possession of a surplus of exports over imports.

During the entire span of this highly satisfactory

period, the business man, the farmer, and the laborer did not normally stop to reflect upon the character of the international trade relation; and they did not see that the export surplus was merely a necessary means of canceling obligations arising from the country's position as debtor and its dependence upon Europe for services. It may be that to students a surplus of exports was no more than the natural consequence of being a debtor nation; but students, then as now, were few.

The one fact that was apparent to everyone was that by virtue of some sacred, special privilege, the markets of the world were thrown open to the products of the country, and that the resulting favorable balance of trade and a sound economic condition were inseparable. Here was a simple formula—simple in its mechanics, but miraculous in performance: the nation, like the business institution, that sells more than it buys is bound to prosper!

It became plain horse-sense to relieve industry from the necessity of competing at home with the maturer industrial power of Europe by excluding foreign goods as much as possible from the domestic market. How else was industry in America to be fostered in its infancy? How else could the nationally accepted formula of selling more than is bought be maintained? In addition, it was only farsighted to protect American

labor from the lower standards of European workers; and incidentally, it did not seem amiss to secure American capital against a possible loss of profits.

The ideal would, of course, have been a large and lucrative field for American goods abroad and the simultaneous restriction of the sale of European commodities at home. But unfortunately there seemed to be no possibility of controlling exports by astute political action, and the development of foreign markets had to be left to the devices and the good fortune of private endeavor. Imports were more controllable. A general embargo could not very well be placed upon foreign commodities, but the erection of a tariff barrier held out reasonable security from a rising flood of competitive goods. Whenever the tide of foreign products pitched high enough to threaten depredations on the home market, there was no dearth of voices to clamor for higher walls or of hands to rear them.

As the decades laid themselves end to end, protective tariff became a thundering theme in the national economic anthem of America. The statistician's dampening sermon on the real causes of export surpluses was disregarded or speedily forgotten, while a more than willing ear was lent to the politician's never-failing assurance of the incalculable benefits of protection.

Today, America is no longer a debtor, and the new creditor status of the country is apparently a source of great satisfaction for the American citizen and voter. There is a sense of exhilaration in the consciousness that roles have been reversed and that now the world owes us. It seems only fitting and proper that the land of reputed political and religious freedom should have attained emancipation also from financial bondage. There is even the possibility of our financial supremacy being confused with general superiority by more than a few staunch patriots. And to the admonitions of the statistician and the expert again complete indifference is shown. If statistically a debtor status explains America's favorable balance of trade before 1914, the statistician is compelled to admit that a creditor status such as exists now, should have been accompanied by an import balance. But all men know that this is contrary to the plain facts. For ten years an export surplus has lived in close wedlock with a creditor status; and anything as incontrovertible as that is certain to make short work of even the most plausible of theories.

An export balance, moreover, is the cherished heritage of America, not easily to be exorcized by a series of lifeless figures and deductions. Possession is nine points of the law—and sixty years of ownership is the Ameri-

can boast. It is simply that American business has discovered the secret of how to sell abroad, and that it has the finances with which to grant the necessary credits. Supremacy in the world's markets is then America's own by the immemorial right of conquest, and the statistician's forebodings are only a kind of baying at the moon as contrasted with the actual shouts of victory from day-to-day achievement.

As for imports, they depend solely upon a sagacious Congress and a prudent administration. And wisdom and prudence in this matter as measured by American business are in direct proportion to the solidity, the permanence, and the altitude of the tariff barrier. An import balance is the result of stupidity in Washington and not the inevitable consequence of an economic law whose validity ten years of history have controverted and which deals, moreover, in factors not visible to the naked eye. When imports threaten American industry, the savior approved by experience and sanctioned by time is a higher tariff, and there seems no earthly reason for discarding a tried and trusty servant for an untried applicant. In the light of these considerations it may be confidently expected that the threat of an import surplus will be met by a Chinese Wall of formidable proportions. It will be America's tra-

ditional answer to the familiar challenge of competitive imports.

But aside from the general disposition to accept the combination of an export surplus and a creditor position as normal, and aside from the tendency to rely upon a high tariff as the rabbit-foot of a prosperous condition, there are special pro-protectionist elements within the body of the nation to which due weight must be given. Even among the few who might be sympathetic to the student's insistence upon the inevitability of an import balance, there will be many who will spare no effort to convince Congress of the necessity of granting "proper protection" to their own particular industries. And there are industrial purists who feel strongly that, aside from the chronic cranks and dissenters, it is only the banker looking for the protection of his foreign investments who favors a lax policy. To these partisans the loss of interest and principal on such investments is vastly preferable to foreign encroachment on the domestic market.

We have seen as yet only a small portion of the vast army that protectionism can and certainly will summon to its banners in a critical contingency. It is only natural that business men for whom foreign products represent serious and possibly fatal competition, should

endeavor to eradicate the evil within the borders of the country. The textile manufacturers, who are frantic enough as it is, naturally have a strong interest in driving far from our shores the textile goods of Europe; and the American chemical industries, only now arriving at maturity, do no end of clamoring for protection against foreign chemicals and dyes produced on a lower cost basis due to a lower standard of living.

The long history of the struggle of labor for its present unparalleled standards of wages and living is inseparable from the story of American tariff. When protection policy was the indispensable foster-mother of the country's infant industries, tariffs were a crucial factor in the security and welfare of the workers employed in them, and became identified in the public mind with the symbol of a full dinner pail. A sharp scaling down of tariffs would have brought in its wake substantial reductions in wages or even the complete loss of employment; and these in turn meant a definite regression in standards of living and purchasing power.

American labor has been taught by decades of bitter or joyous experience to regard with instinctive distrust and jealousy any attempt to lower the barriers of tariff behind which there are security and plenty. The American Federation of Labor has frequently in-

dicated its opinion that it can look only with dismay upon the prospect of goods produced by lower-paid European workers showing themselves in the American market. Should there, therefore, be a grave danger of such an eventuality, it may be expected that the organized workers of America will fight hard and earnestly to maintain the historic protectionist policy of America; nor would most business men withhold their support from such an effort to insure present standards of living.

It is not to be forgotten that today American business is for the most part devoted to the principle of high wages; that, since American products are sold chiefly to the American wage earner, a reduction in his earnings is just so much a diminution in the purchasing power of the domestic sales market. So ingrained in fact is the business man's adherence to the general principle of relatively high wages that he almost believes that some time in the past he and his peers in concert analyzed the cycle of wages and purchasing power and decreed high wages to rule henceforth. Perhaps it is all for the best that he forgets how he gave his allegiance to high wages only reluctantly and under compulsion from labor shortages and collective bargaining.

It may appear somewhat strange that these exponents

of protection do not consider it necessary to explain their present stand, in view of the fact that the structure of American industry now stands firm enough on its own foundations to be able to do without temporary buttresses. Certainly it manages to do an excellent competitive job in the open markets of the world where American tariff cannot possibly give it shelter from competitors. It may be that protection enables industry to develop more highly specialized methods of production and to extend its standardized mass manufacturing with greater effect. It may be that the vaunted ability of American industry to compete successfully is limited to a small number of products. Or it may be that there is no call for consistency in the attitude of labor or capital, that habit and fear prevail here as almost everywhere.

Tariff had its birth in the ideal of protecting the young industries of a young country while they were growing to economic maturity. It was a long period of childhood. At last there came adolescence; then, more rapidly, maturity. Protection for the young was no longer necessary, but there nevertheless remained protection as an ideal—just as patriotic, just as indispensable, and just as profitable.

If, indeed, the wall of tariff which organized labor strives to erect should result in an adverse effect upon

American products abroad, there may be serious consequences for the standards of the American worker. So long as he produces for export as well as for domestic use it would seem that he should maintain a lively interest in the willingness or ability of foreign markets to accept American products; in order to make a truly wise decision as to his practical attitude, he would first have to describe a circle in search of the effects of a tariff created in Washington but felt in Berlin, Paris, Manchester, and Johannesburg, and back in the factories at home. The wider point of view, however, carries little or no weight with the individual labor union surrounded by the particular problems of a single community or a single plant, and an impartial review of trade-union sentiment can lead to only one conclusion: labor will give an almost undivided, rousing cheer for any legislative action that tends to maintain or even heighten tariff walls.

And still the pageant of protectionism passes by, in full regalia, with band and pennants and sure-fire oratory. The consumers, even apart from those whom labor represents, are, with negligible exceptions, certain to join in the defense of the motherland and the national sacred cow. Most American consumers are unshaken in their belief that the chief ingredient of the cake they eat in place of the plain, coarse loaf so prom-

inent in the diet of their European cousins is high tariff. The appeal of lower income taxes (because of greater customs receipts from a greater volume of imports) will hardly be wide enough to seduce the American consumer from what he has long learned to consider the fountain-head of American prosperity. The need to protest against the burden of the income tax is at any time preferable to a decreased income.

Nor is the argument that high tariffs generally involve higher prices likely to affect the consumer beyond a very moderate degree. Ultimately, the great majority of consumers are either employers or employees—and in a conflict between a longing for lower prices or taxes and the fear of lower profits or wages, the desire for higher profits and wages is certain to emerge victorious. An impoverished consumer finds little attraction in offerings of merchandise at a comparatively low price, but there is rarely a serious objection to slightly higher commodity charges from the purchaser who is prosperous. As long as high profits and wages are believed to be related to high tariff, the advantages of lower prices and lower tariff will never alienate the employers and employees of American business from their traditional allegiance.

Last and least important, but by no means least energetic in their concern for home and hearth, come

the various minor interests that must entrench themselves against foreign competition. Their contribution to the national wealth may be pitifully small, but they are never unwilling to make themselves heard loudly in lobbies or felt in the pressure they bring to bear upon individual members of the houses of legislature. The dangers of a flood of foreign olive oil, the catastrophe that lurks in the importation of bulbs and orchids, the statesmanlike wisdom of protecting the $400,000 produce of American-grown filbert nuts against an $18,500,000 importation must be palpable to even the most hardened free-trader! And surely there is statecraft in taxing bananas in order that Americans should eat more home-grown apples.

Many, then, are the reasons for a protectionist attitude in America now and later. There may be divergent opinions on the particular items of a tariff bill, but in the face of the threat of a large influx of competitive foreign goods unanimity is well assured. Those who question the homogeneity of the American people would need only a referendum on tariff to discover a startling uniformity—north and south, east and west.

IX

The Imminent War of Tariffs

EUROPE must be accustomed by now to her enforced role as scapegoat of the world in matters economic, but continued protectionism in America will not be merely another blow to her, to be taken quietly and philosophically.

Europe is by far the largest of America's debtors, bearing 53% of the world's indebtedness to the United States. At the same time Europe has been for a long period dependent upon American products, and is at present more so than ever, with almost half of America's huge export bulk speeding to her ports.

The rest of the world can settle its American obligations by exporting goods. Europe must content herself with service charges and some interest receipts which at best go only part of the way towards settlement with the United States for goods and capital. Practically all commodities that are allowed free access to the United States are raw materials which, like rubber and silk, come from non-European sources of

supply. America does not generally tax what she requires for her great industrial enterprises. So long as this is the case, and so long as American industrial needs continue to multiply, neither South America nor Asia will encounter any serious problem in paying the creditor nation on the North American continent.

Practically all commodities, on the other hand, that Europe produces are manufactures which compete with American-made goods, and are therefore dutiable. Almost the entire weight of American tariffs is felt by European production, and any action looking towards a rise in duties can only threaten Europe's industries with still greater burdens and handicaps, aside from aggravating the problem of financial settlement.

Eventually, as her interest obligations overtop the level of her fresh borrowings, Europe, like the rest of America's debtors, will be compelled to make an adjustment either by means of large additional shipments of products, or by a radical reduction of annual purchases. It is hardly desirable or advisable for her to limit her imports from America below the present volume. Certain commodities she is compelled to buy from the United States; others she can purchase more effectively there than she can either buy elsewhere or manufacture herself. But in order to buy, it is obvious

that she must also sell; and it is in her problem of sales that Europe finds an acute interest in the present and future tariff barrier against her goods.

Europe's lively interest in American protectionism is clearly then not a matter of sentiment or mere principle on her part. The tariffs determined in Washington are really vital factors in the economic existence of her nations and individuals. That the American tariff is quite as important as the average European business man and banker seem to believe can be categorically denied. But that it is far more important to Europe than the average American business man and banker think it is can be categorically affirmed.

It was no meaningless grand gesture that Europe made in 1929 against the possibility of American tariff creating increased penalties on the importation of European goods. When her nations, among them Great Britain, France, Italy, and Spain, sent communications to the United States during the discussion of tariff rises in Congress, they were protesting against an imminent loss of American markets and against increased handicaps in the race for economic security and well-being. When thirty governments sent individual appeals to Congress against the raising of tariffs, they were actually re-enacting an event which had taken place some hundred and thirty years ago. The

United States was at that time exactly in Europe's present position, and James Madison, then Secretary of State, addressed a note to England which voiced America's grievances in almost the same terms employed by the nations of Europe in 1929. No American at the time would have listened with patience to a member of the English Parliament who would have attributed this note to the self-interest of a small group of manufacturers rather than to the general opinion of the American people. The content of the recent protest is equally valid, even if more than a century divides it from its American prototype.

In the future, European protest will probably not be limited to words sent across the invisible path of radio or to deprecatory gestures and an air of resignation. If America resorts to her sovereign right as a nation, so may the European nations, should words fail to have any effect upon Washington. They can determine their own tariff policy with as much right as America determines hers. Barriers might then rise on both sides of the Atlantic, until the only question would be one of relative altitude and effectiveness.

Economically, a program of European tariffs expressly aimed at America has a measure of justification, and, unfortunately, the present temper of Europe's population is admirably prepared for retalia-

tions of one sort or another against the United States. There is marked European resentment against what is thought to be the inconsistency of advocating a confraternity of nations and a reduction of armaments, while raising prohibitive barriers which threaten the very existence of other nations. The moral gesture of the Kellogg Pact and the equivocal flirtation which the United States has been carrying on with the League of Nations seem, in the light of America's tariff egoism, exhibitions of the grossest hypocrisy.

The debt question is still another point of difference between Europe and America, and has been responsible for considerable ill-feeling on both sides of the Atlantic. Sentiment on the subject climbed the thermometer rapidly several years ago, and normal temperature has not yet set in. In a crisis, the debt situation would, no doubt, be counted in the sum total of America's sins against international amity. For America, the war debts were contracted by European nations on the normal basis of business and national requirements. For most Europeans, American advances to the Allied powers were not ordinary business ventures, but represented an effort to bolster up American ideals and secure the American philosophy of government against an eclipse. Europe, merely because of a historical and geographical accident, assumed the

brunt of the conflict between the principle of democracy and that of autocracy, and the least America could do was to supply the champions of her principles with money and goods. If anything, America sinned grievously in so far as she delayed casting in her lot with her natural allies until the third year of the struggle. What was the expenditure of American dollars in comparison with the Allied expenditure of blood and flesh on the shell-combed areas of Western Europe?

At one time indeed Europeans might also have had one sound economic reason for their protest. They could have maintained that American credits were granted at a time of such inflation in prices that the obligation of repaying a dollar did not represent the purchase of a dollar's worth of commodities. The funding operations of 1923, which under cover of lowering the interest rate actually scaled down the principal of the debt by four billion dollars, make it impossible to raise this claim again. The reduction has fully provided for any wartime inflation of prices above the reasonable value of the principal at the times of repayment.

Americans, on the other hand, have been disposed to contest each and every one of Europe's allegations. Americans have felt very strongly that the war was a

European creation, with American responsibility at best very slight. On this side of the Atlantic it has seemed that, in spite of assurances to the contrary, Europe, prior to 1917 and even subsequent to America's entry into the struggle, was engaged in little more than an acute phase of economic and political rivalry. Theoretical standards of democracy were defended by neither side, except incidentally. Democratic France, in spite of her historic liberty cap and memories of '93, was associated with Russian despotism in a close fraternal bond, and England had its own family skeleton in restive India. Wilsonism, for Europe, was a convenient excuse for the most contradictory and self-centered aspirations. For the Allied governments, it was shown by subsequent events to have been little more than a convenient slogan for demoralizing the Central European armies and non-combatant populations with promises of peace without punishment for the conquered. In the period of 1914-1918 the world was thrown back to fundamentals, to the most elementary precepts of struggle and survival. Altruism is difficult to discover among the motives of any of the original combatants.

Nor has the European appeal for cancellation of war debts on the strength of a community of interests and the dawning of a new day of amity in the world

found more favor in the eyes of the American public and its leaders. History, or certainly recent history, gives no precedent of self-sacrifice superseding self-interest as the carefully considered motive of nations. The perversion of the late President Wilson's fourteen points in the Versailles Treaty of Peace has not augured well for a new era of understanding between the nations, in spite of the many subsequent efforts in this direction. How many Americans can look upon the many-colored map of contemporary Europe and feel quite assured of international understanding on the Continent? The dawn that Europeans see is still too dark to be encouraging; at any rate, it has not seemed rosy enough to lead America to forgo her interest receipts in a sudden burst of idealistic enthusiasm.

There exists, of course, alongside the darker stream of public feeling towards America, another more favorable, and also infinitely more tactful. Responsible European leadership cannot be consistently blind to American claims, and actually has not been—as the successful funding operations on the debt tend to indicate.

But there is a just claim which Europe can unquestionably make if America still prefers to allow her debts to stand. If a debtor is to pay, he must be granted the right to pay through his labor and through the sale of the results of his labor. A protest against

the unfairness of the creditor nation that places obstacles in the way of its debtor's discharge of obligations would have absolute justification. Europe's remonstrance with the United States in 1929 was just as valid as was the American claim of 1800. And still more resounding may be Europe's protest on the future day when the disparity between interest payments and new loans becomes too great to enable her to stave off any longer the time of final settlement.

On that day it may not be difficult for the demagogues and autocrats of European nations to swing their respective governments towards a pronounced policy of tariff retaliation. It is possible to scan on the horizon a picture of a battle, not bloody but none the less lurid in color and violent in line.

Already there are many daubers in Europe who devote themselves to the painting of the picture. Many of them make up in artistry what they lack in caution. Some have only vaguely vindictive ideas, others have a bolder and more forceful imagination, but in general it is possible to distinguish two chief themes of propaganda for Europe's future international economic attitude. The first concerns itself solely with tariff retaliation against the United States. The second is broader in scope and more constructive, and involves the organization of a United States of Europe.

Already the plea for tariff retaliation against America does not fall upon deaf ears, and the movement is likely to gain still larger groups of adherents in the future, if America's ports remain closed against European goods. Informal discussions everywhere in Europe have been dwelling upon the necessity of answering America in kind, and European industry has been taking advantage of the psychological situation to plead the cause of home-made products. Nor is the economic reason the only one that enters into consideration. Much capital is also made out of the fear of American domination and possible ultimate control or ownership of Europe.

The expounders of these sentiments do not limit themselves to subterranean or private channels. The press is outspoken, legislators discuss the possibilities of action gravely, and even some of the most responsible European leaders have espoused the cause. In England, there has been some fierce agitation for a simultaneous English and Continental tariff barrier against the ogre of international finance on the other side of the Atlantic. In some instances, the situation has passed beyond the stage of discussion; and there are examples of practical steps already being taken. Perhaps the nations were not in these cases always antagonistic to the United States, but the nature of their actions and their implica-

tions converged to the same effect. France, in 1927, made a treaty with Germany providing for a duty upon American-made machinery, chemicals, etc., four times as great as the excise tax upon similar products from Germany, England, and several other European countries. In Italy, embargoes have been placed upon American-made automobiles, and the French have already announced a similar measure. In the British Empire provisions exist for preferential tariffs between Great Britain and her daughters, and the Empire could go further.

How far a frank attack upon American goods will actually go, it is difficult to say. It may be expected with confidence that European attempts at discrimination will meet with active and possibly effective protests from the government at Washington. It was a protest of this nature that succeeded two years ago in effecting a modification of the above-mentioned Franco-German Treaty.

Much weight will be carried by protests of the American government, as responsible Europeans no doubt know. At the present time, although the American tariff is frequently onerous, it is not directed deliberately against any one nation; every possible impartiality is observed. The adoption of a plan of specific discrimination against any nation or group of nations, should

America wish to reply to a particular tariff antagonist, would create hardships much greater than those now endured or as yet imagined by Europe. An adverse feeling in America produced by European tariff discriminations could even bring the whirlwind of financial and industrial disaster to Europe.

For America the loss of her European markets would not be nearly so disadvantageous or disastrous as Europe's loss of American markets, as Europe's continual emphasis upon the importance of her American sales would alone seem to suggest. An adverse American public opinion, moreover, would produce a snapping of the purse on financial requests, especially if the federal government made it plain that it considered private loans to certain or to all of the European nations unsuitable and inadvisable. It was some such action five or six years ago that brought France and the other Allied nations to terms on the question of war loans, just when sentiment was most hostile on the subject of payment. The development of an anti-European point of view in America would be almost sure to result, officially or unofficially, in an effective embargo on the export of capital. Inability of European nations to pay their loans, to rehabilitate themselves, and possibly to remain solvent would be the possible consequences. Add to this the abolition of trade relationships between the two

antagonists, and the result might be unspeakable industrial depression and financial disaster. And for America, the urgent necessity of an import balance would become all the more acute if American loans were not forthcoming and the European economic structure were badly shaken.

The gruesome character of the picture just drawn is probably the strongest reason why it will never come to be. Sanity and common sense still characterize the American and European leaders; and these must and, no doubt, will find a trail through the jungle of economic complexities that surround present and future economic relationships. Sporadic retaliations there may be and will be, if sentiment runs high enough; but undoubtedly a recourse to a war of tariffs on a large scale is not a strong probability. An adjustment between the two antagonists must and will be made at last—at least, such a hope may be entertained with some measure of confidence in preference to the abyss of despair that is the only alternative.

The possibility of a United States of Europe is at least a constructive thought, even if difficult of realization. The idea is receiving consideration from some of the keenest minds of Europe and will probably be productive of many more discussions within the various states and in the League of Nations, where it is sched-

uled to be reported upon in the near future. The French Constitution of 1790 hinted at such a union. Napoleon envisioned the unification of Europe under one ruler, and took steps towards putting the idea into execution on the battlefields of Jena and Wagram. The World War, by showing the evil consequences of innumerable political and economic rivalries, revived interest in the ideal of European integration, marking a wholesome reaction after the narrow nationalistic sentiment of the past hundred years in Europe. In 1926, Count Coudenhove-Kalergi, as energetic an idealist as ever lived, called his first Pan-European conference, and he has labored in the cause of Pan-Europe ever since. The late Stresemann regarded the plan with favor, and Aristide Briand, the able diplomatist of France, who advocates a United States of Europe on economic more than on political grounds, has given the movement a practical direction. It was he who broached the idea at the most recent convocation of the League of Nations Assembly.

Economically, the plan may be considered ideal; from a business point of view it is certainly not too visionary. If in the western hemisphere it was common sense to weld forty-eight sovereign states into a federated whole, thereby eliminating interstate tariff barriers, it should be equally good sense to fit the nearly

thirty economic pieces of Europe into one unified whole.

There can be little question that the economic life of Europe, on the whole, has been adversely affected by division into a large number of relatively small states. To what degree any of the new principalities created by the War and the Treaty of Versailles is definitely self-sustaining is a moot issue, and how wise it was to partition Germany and create the "free" city of Danzig, history alone will decide. But there is no question that the addition of Czechoslovakia, Poland, Lithuania, Latvia, Finland and Esthonia to the sovereign states of the Continent has meant the further segregation of the population of Europe into small trading and manufacturing groups. In its desire to be self-sustaining, each new state has attempted to encourage nascent home industries in accordance with the time-honored precepts of tariff advocates. Additional and unreasonable tariff barriers have been constructed, investments in machinery and buildings have been frequently duplicated, and, altogether, the supply of competitive products has been increased.

Poland was originally created as a buffer state between Russia and Germany, and has run true to promise. She has girdled herself about with high tariff walls, practically cutting off Russian trade; and part of the

suffering in England's Lancashire district is attributable to Poland's action.

Far from laying the ghost of nationalism by giving a most vivid exhibition of its consequences, the War has only served to aggravate chauvinistic feeling in large sections of the Continent. Even war-psychology is still to be found—ten years after the legal declaration of peace—within the boundaries of a number of highly inflammable nations, and war-philosophy has significantly affected the economic character of the entire Continent.

Everywhere in Central Europe there are disaffected minority nationalities within nations. Countries that lost or were compelled to cede territory to neighbors probably have not yet given up their hopes of redeeming it somehow. Every one of these nations has consequently striven to become self-sustaining in the event of war. Many countries, normally agricultural, have attempted to develop industries artificially. High tariffs have been imposed upon foreign products in order that certain feeble-bodied home industries may manage to exist, even if there is little hope that they will ever really flourish. Undoubtedly other factors too—not least among them opposition to American goods—have stimulated this protectionist trend. The Bulletin of the League of Nations in 1927 reported that Belgium,

Hungary, Italy, Holland, Spain and Switzerland had made distinct increases in their tariffs since 1913. Italy, for example, raised her tariffs, in 1927, nearly 100% on fruits, textiles, chemicals, and tires. Throughout the Continent there was marked upward revision in 1925 and 1927, and decentralization of markets and a wasteful duplication or over-organization of the industrial mechanism have characterized Europe ever since the War.

The picture of a federated Europe, within which tariff has been abolished, is therefore an alluring one. Without tariffs, Europe would represent an unrestricted consuming public of about three hundred and fifty millions of people, and, at last, truly efficient large-scale production would become possible for the Old World almost as much as for America.

There is no doubt, then, that a United States of Europe would be of economic advantage to the European peoples. As for its effect on America, this might be good or bad. Even if the union did not enter upon a policy of tariff retaliation, it might still create an economic disadvantage for the United States of America. America, at present, has the advantage of being able to sell Europe goods produced in a domestic market huge enough to make economic production possible. This advantage might be notably curtailed

if the domestic markets of Europe were welded into one large economic whole.

But this harmful effect is by no means a foregone conclusion. The advantage accruing from a resultant increase in world trade might counteract the unpleasant effects. There are even now American exporters who feel that tariff uniformity would be of decided benefit to them. But even if America did lose her competitive advantage, she would have no conceivable right to protest against the constructive step which Europe had taken.

There is, however, no guarantee that this sequel to nationalism in Europe would not require a psychological revolution as well as radical political realignments. Nationalistic sentiment is a Hydra on whose body two heads grow for everyone cut off. Unfortunately even economic advantage does not always prevail over deep-seated suspicion, habitual behavior, and prejudice; and the prospect of a federated Europe is faced by a wall of sentiment that simply bristles with past hatreds and fears. Cleavages exist on the basis of race-differences inherited from earlier periods, when archaic transportation forced social isolation upon a large percentage of the people. Finally, the largest component of Europe is excluded from the project for obvious reasons of incompatibility—Russia!

Inasmuch as the most important economic benefit resulting from the integration of Europe would be the breaking down of the tariff barriers that divide about three hundred million consumers into twenty-eight water-tight compartments, it may be that complete federation of Europe is not necessary economically, no matter how advantageous it might be politically. The simple creation of a customs union, abolishing tariffs between European nations, would go far towards solving the problem. But here too, no doubt, there are riddles no Sphinx ever put. There is, in the first place, the dilemma of England, which has obligations to her Empire, and could not very well associate herself with Europe without also including her territories in other parts of the world. Without political unity, besides, a customs agreement might fail of permanence, and stormy political disagreement or the least breath of war could shiver it like glass. On the other hand, it may be urged that if Europe could live for some time under the voluntary plan for eliminating international tariffs, the indubitable economic advantage might favor continuation of the customs union, and even serve as a basis for further political stabilization of the little continent of a hundred tongues and cultures.

Here, too, Briand is an active proponent; and his

companion in many peace moves, the late Stresemann, who was Germany's foremost statesman, delivered a forceful plea for such a union in the Reichstag. Mainly owing to the efforts of these two, the 1927 conference of the League even went so far as to propose a number of tariff amendments, including a lowering of rates and improvements in classification. In the Scandinavian countries the feeling in favor of such a union has been especially high; and recently Eliel Loefgren, the former Swedish Minister of Foreign Affairs and present Postmaster General, declared himself for the abolition of "the self-tortures inflicted by high customs barriers," calling upon the Scandinavian countries to lead the way towards greater economic sanity. Even in England there has been some strong feeling in favor of a customs union for Europe.

That a customs union can have so many advocates and nevertheless no existence in fact as yet, bespeaks no slight difficulties in execution; and indeed the customs-union ideal runs counter to many of the deep-rooted animosities and jealousies of the various European sovereignties hardly less than the ideal of a federated Europe. Nationalistic aspirations are in the nature of things obstacles to free trade, although these may lose their significance as stabilization removes war-psychology and as economic pressure increases the

necessity for a sensible economic system in Europe in place of the present impractical heterogeneity. Such pressure can come from within, if Europe's recovery is conspicuously slow; or it may come from without, if American tariff rates penalize European industry.

The disposition to think nationally and selfishly is naturally reinforced by many factors of individual interest. Even if there is acceptance for the principle of a customs union, which would be a concession indeed for revenue-tariff nations like Spain, it is not likely that individuals and groups who suffer for the common good will accept their loss of a private economic advantage with resignation. They will probably insist upon reservation after reservation, and in the end throw their united weight against the realization of the plan. If the young or relatively weak industries of one nation see in their country's association with other nations handicaps for themselves, they will not be slow in discovering a bacillus of "treason" and a "national danger" in the project. Nor would the lowering of food prices by free trade fail to add the dissenting voice of the agriculturalist to that of the industrialist. Perhaps, after all, a complete customs union for all of Europe is too much to expect. Arrangements between two or three countries and free trade on fifty or one hundred products have greater

immediate possibilities of consummation. Such partial realization of the plan may even do much towards establishing its soundness empirically, and may ultimately prove to be a first step in the direction of European free trade.

In these developments, whatever they may be, America's role, even in the negative sense, is bound to be of significance. A feeling of economic inferiority in respect to the United States naturally motivates much of European thinking along lines of concerted action. And in the future it will be mainly the American tariff policy that will lead the European nations to bury their hatchets and huddle together as best they can. The least wordy and most effective sermon on economic, if not political, integration in Europe, will be that preached unwittingly by America. If her tariff regulations make American markets accessible to European producers, the incentive to a customs union may be diminished. If, on the other hand, protectionist policy excludes Europe from all or a major part of the American markets, a tariff understanding between the European nations may become an immediate reality.

It may seem strange that a policy as domestic as the American tariff seems to be can have such far-reaching effects upon the organization of another continent. Nevertheless, the attitude of America in respect to tariff

is, in effect, a foreign policy. It may appear incredible that European resentment can affect America to any extent, and yet it is nonetheless true that such a sentiment can eventuate in European measures that may react vitally upon America's own economic status. There is exquisite irony in a tariff which, though designed to maintain America's industrial isolation, embroils her in difficulties abroad, and which, although established as a protection for industry, creates instead a situation that may hurt the business of the country.

X

Effects of a Tariff War

A COMPLICATED and confusing situation is created by America's tariff attitude. Those who have felt that the voice that was recently raised for a reasonable tariff was unpatriotic, or motivated solely by a desire to protect American capital abroad, may do well to glance at the picture that presents itself.

War between nations, even when its battles are strictly economic and involve no trench or air warfare, is costly and destructive for all concerned. Certain it is that, if, under the stress of public sentiment, Europe is drawn into open tariff hostilities, neither Europe nor the United States will have much of a victory. There can be no victors in such a struggle. Technical victories will be practical defeats, and several such victories may even prove disastrous to the winner. Aside from a possible tragedy, the after-effects are rich in possibilities that may make a just claim upon the consideration of the interested observer. The scene is actually too large for detailed painting, but at least some significant

parts of the picture may be sketched with a free hand.

For Europe, perhaps, some slight benefit would accrue from the reduction of future interest obligations that might result from a war on imports. Once imports were reduced, the need for loans of capital insofar as they are needed to pay for goods, would be proportionately less. This, in turn, would result in a reduction of the amount of interest that is annually added to Europe's bill, although the reduction, as contrasted to the huge base already existing, and the bare needs for working capital, cannot be considered of great moment in the total international financial status of Europe.

Fewer imports, moreover, would involve some compensating decrease in the need to export, making the production of Europe more completely and readily available for use by domestic industries and consumers. Under these circumstances a somewhat higher standard of living might be encouraged—particularly if the customary European emphasis on thrift and self-denial were to be replaced by an appeal for greater consumption at home. On the other hand, there is as yet no impressive evidence of European attempts at stimulating a purely domestic demand, and a recession in imports might bring no corresponding increase in home consumption. In that case a decreased necessity

of exporting might have opposite results and actually bring about industrial retrogression. But adversity and necessity are excellent teachers of business and men, and it is conceivable that Europe's disinclination may be overcome and a new era of business, founded upon the fruitful principle of the marvelous extensibility of demand, may be ushered into being on the Continent. This, however, is a story by itself and may be reserved for later treatment.

The less pleasant prospects for Europe in case of a tariff war have already been touched on. One need only remember the danger that lurks in American resentment of deliberate tariff retaliation—the threat that resides in a removal of most European goods from America's domestic market and in an embargo on loans to Europe. Europe deprived of her largest market in the world and tied to inactivity by limited working and rehabilitation capital is a dire spectacle indeed. It happens, however, that America, too, may not escape a severe jolting of her industrial and commercial cart, and even she may find it expedient to choose some other highways for her progress than those she has habitually taken. If business were a simple matter of figures there would be no substance to these contentions, but business is more than that.

If the volume output of industry in any year should

go back to that of the preceding year, there is neither assurance nor probability that profits would merely revert to last year's figures. It is more than likely, as a matter of fact, that in such a simple example of industrial retrogression profits would suffer disproportionately, decreasing materially, even to the point of disappearing.

There would be many reasons for the unequal effect upon profits. Recession, in the first place, often gives no warning, and as a result there are inventory accumulations from the active production schedules of the current year which must be sold to a sated public or which, at least, must be disposed of at the lower sales speed of the preceding year. Increased expenses and decreased prices of sales combine to eat a large segment out of the pie of net profits. Then, too, if the cessation of production comes suddenly, the later months of the current year may easily comprise a period of idle time for the personnel and the industrial machinery, and the economies of the superactive first period of the year may be quickly counteracted by the waste of the idle months. In the preceding year, production, even though the same in volume as in the current year, proceeded upon an efficient and regular schedule, in which economy and correlation of sales and manufacturing combined to yield substantial profits.

Usually, moreover, increased appropriations are made for sales effort; increased machinery equipment may have been installed, buildings may have been enlarged to house increased capacity, and administrative and direct labor personnel may have been augmented. There is no certainty that these improvements can be nullified, even if the unlikely warning of imminent industrial retrogression has been heeded; and to the degree that the volume output of the current year is less than, or even the same as, that of the preceding period, the increase in the general expense and in direct labor charges represents actual subtractions from net profit.

Lastly, there must be taken into consideration the behavior of the men in management. Men do not willingly accept regression. Previous years' records are for them no rocks of ages to which to cling; they are much more likely to seem rocks of disaster to be avoided with all the speed that the particular industrial bark can command. When recession sets in, there is generally the feeling on the part of every man in management that the adverse effects will be felt by other industries or, at least, by other institutions in the same business. For himself, he recognizes the decline only as a temporary hiatus between two sections of prosperous accomplishment. In a large measure, too, he

estimates his place in the sun by his volume—not by his profit, which is more difficult to determine. During a period of slow business, he strives hard to retain his volume, even at the temporary expense of profits. He resorts to more ingenious and aggressive sales attacks, pays greater attention to his product, and bends his efforts towards the development of a more salable commodity.

In any event, the difference between the prosperity of one business period and the depression of the succeeding one is actually represented by a reduction of only five to ten per cent in the unit volume of production and distribution. In view of this fact, the six to eight per cent of the annual volume represented by American exports assumes an importance vastly in excess of its mathematical ratio; and by the same token any considerable decrease in the export total, such as is threatened by the possible tariff retaliations of European nations—even though this may be only two or even one per cent of the entire national turnover—can become a problem of some magnitude.

The fact that the burden of a decrease in exports falls directly upon one group of industries and not upon all industry, far from mitigating the difficulty, or even isolating the harm from the other business institutions, only serves to aggravate the problem. Industry

does not fall into water-tight compartments. The sales of one particular plant represent purchases from many suppliers, and the producers of one industry are consumers for many other industries. Workers engaged in producing luxuries may be using staple raw materials, and as private consumers they must purchase necessities like food, clothing, and shelter. The men occupied with the production of commodities requiring foreign markets are likewise integral parts of the American domestic sales market, and unemployment for them will normally result in lower sales volume for the industries that produce primarily for home consumption.

But the reduction or even the threat of a reduction of European imports from America is likely to have still other unique consequences. American industry requiring or desiring European markets may take a determined stand for a decrease in American tariffs and involve other industries in its propaganda. Its endeavor may, perhaps, be crowned with success with regard to items not too strongly backed by opposing interests. Now and then, at one or other tariff-making, the success may be even more general, although there is no reason whatsoever for expecting at this date a complete or lasting victory for the anti-protection forces in America.

If, on the other hand, the industries that desire European markets see little or no possibility of tariff reduction, they may resort to at least one other method of preventing the loss of their European markets through penalization. In order to protect themselves they will not hesitate to become citizens of the respective countries whose good will and consumer markets they are seeking. Nor is this suggestion the product of an over-heated imagination; the movement is actually well under way. Already scores of American industrial institutions have purchased substantial interests in similar businesses in Europe—also in South America—and already scores of other American companies have established subsidiary companies under the flags of foreign nations. Ford, General Motors, General Electric, Electric Bond and Share, International Telephone, and Radio are some of the corporations that have taken time by the forelock by establishing bases of foreign operation in the British Isles and on the Continent. In South America the movement has been less fully developed, but even there it is already well indicated. Establishment in South America has its obvious advantages in case of European retaliation; retaliation would not normally affect Argentine or Paraguayan exports. American enterprises have purchased land and in some instances have laid the foundations of buildings in

anticipation of the day when decentralization of their foreign business becomes economically advisable.

The consequences will be far-reaching for everyone concerned. In Europe and elsewhere, an infiltration of American methods and standards into industry and into life in general would almost surely take place. An improved competitive mechanism for industries may be established in these areas. A new consuming philosophy might take root in European and South American soil.

In America, there may develop as a consequence, a further reduction of the theoretical and psychological wall of isolation that has characterized the country ever since its pioneering days. When America's capital and industries have become considerably expatriated, there will naturally be brought to bear upon her foreign policies the requirements and experience of a substantial group working in foreign environments.

In so far as industrial expatriation begins to offset the advantages of American high tariff, it may create a new problem for American labor and industry. If the guiding principle of American protection is the safeguarding of the American consumer markets for America, still it is no intentional part of the program to lose portions of the existing foreign market for American industry. The building of foreign plants

by American business men will probably be followed by a proportionate decrease in the activity of strictly American plants producing for foreign markets, and this could only result in a corresponding reduction of efficiency and employment. For stockholders of the corporation which expatriates part of its capital the loss may be offset by the profits of the foreign subsidiary; but for discharged employees and for the industries that ordinarily benefited from their purchasing power, the loss would be without compensation. The incidence of this loss would be entirely American, and the shift would be of no slight benefit to Europe. Yet there are Europeans who decry the sale of interests in their domestic corporations to American industries, and look with disfavor upon the establishment of American plants within their borders. They see in these developments a replacement of their own culture and handicraft by the bustle and standardization of American machine methods. There are Europeans who even believe that their national birthright is being sold to the Yankee; that such infiltration inaugurates a process by which the Continent of culture will ultimately become the property of American business now grown imperialistic. Now that the New York stock market has fallen from its imposing heights, these fears may have abated somewhat; but

even in the halcyon days of American security-price inflation, they were nothing but absurd.

It is unfortunate that the Europeans who are fearful lest they lose their patrimony to the American ogre have so slight a knowledge of American history. Otherwise they might learn an instructive lesson that could go far in allaying their apprehensions. For a century, American industry obtained its capital sinews and life-blood from the investors of Europe; and in exchange it gave title to its plants and to its railroads. During those hundred years of sales of capital assets there was little if any cry in America of foreign invasion or protest against foreign possession, and the situation was considered the natural consequence of being a nation that required capital for its development. Now that Europe, subsequent to the World War, has found it necessary to build industry anew and borrow for this purpose from her erstwhile debtor, it seems unreasonable that what had been a normal practice for European nations for one whole century should have become flagrantly unethical for America.

The slightest knowledge, moreover, of American modes of thinking should be sufficient to convince an observer that America neither seeks nor desires to accept more foreign responsibilities than a minimum protection of her industry requires. It is indeed strange

that Europeans of all people should be blind to this fact, inasmuch as it has been the prime motive in America's disconcerting disinclination to commit herself to the League of Nations. Extreme dislike for foreign entanglements has not yet ceased to dominate American political opinion, nor is it likely to for a long time. This is part and parcel of America's traditional provincialism and pioneer disposition. While in minor instances there may be deviations from this policy, in major cases such departures are practically out of the question. It is one thing to send a handful of sailors to an island in the Caribbean Sea, and another to patrol Europe, as any patriotic European will readily admit. The group representing expatriated industry in Europe is still too small and is unlikely ever to be strong enough to dominate and radically alter America's attitude where the consequences would go further than the protection of one presidential candidate against another in a politically distracted Central American state. That covetous eyes are being cast upon Europe by America is a preposterous notion.

As a matter of fact, the further injection of American industry into foreign lands would be nothing less than a decided windfall for Europe. To Americans there might accrue profit, but to Europe there would come capital and employment and the benefits of selling raw

materials, equipment, and buildings to the American industry established in her midst. It takes no trained accountant to know that the portion of the sales dollar available for dividends measures but insignificantly against the portions consumed by labor, materials, and equipment. There is nothing for Europe to lose and much to gain in encouraging active colonization of her industrial areas by enterprises equipped with American methods and supported by American capital.

Unfortunately, no matter how complex, no matter how far-reaching, the consequences of America's tariff may be, the problem remains the same. No answer is forthcoming from a mere recognition of impending difficulties. Although an import balance for America is a mathematical, historical, and logical certainty, there is no assurance of a relaxed tariff policy; and even if there were, there is no evidence that the transition from an export to an import surplus by means of an increased flow of foreign goods into the country can be made without creating serious maladjustments.

If European competition became a more significant factor than it already is in the American home market, great sacrifices might be inflicted upon industry. Reduced production would bring in its wake the well-known consequences—lower efficiency, idle time for

plants, reduced purchasing power for labor. Should production be maintained, it would only be by means of lower wages and increased efficiency. There would also be imposed upon industry the necessity of increased selling expense, since additional sales effort would be required to attract a public called upon to absorb both foreign and domestic offerings. Or it might become necessary for American industry to emphasize still further the factor of style and the rate of obsolescence in articles, in the hope of re-creating an already fairly saturated market. This, too, would not be accomplished without sacrifices, because research expense and inventory losses would represent a further curtailment of profits and income. Moreover, obsolescence carried to a still greater degree than at present might very well cause the entire business structure of the country to become top-heavy. The building might become oversensitive to the least breath of contrary wind, and there would be no assurance that a passing storm, such as occurs now and then, might not cause it to topple down altogether!

The vicious circle of decreased production, decreased wages and employment, restricted purchasing power, further reduction of production, further lowering of purchasing power, and still greater diminution of production would begin a series of destructive gyra-

tions. There is little likelihood that under these circumstances the consuming power of the public could be stimulated into a standard that enabled it to absorb all of the products offered by both American and European industry. There is greater probability that the diminishing circle of production and consumption would have America at its mercy, until the standards of living came to rest on a permanently lower basis.

There may be, besides, any number of other complications which it is not yet possible to foresee. There is, for instance, the factor of international services. American tourists depend upon American prosperity for their ability to spend freely in European cities and resorts. A marked decrease in American standards would undoubtedly cause a reduction in the numbers and expenditures of American visitors in foreign lands. Europe being denied a substantial portion of the important income derived from this source would find it necessary to increase her exports or decrease her imports still further. Here again America would be placed at a disadvantage; while Europe herself would suffer a considerable loss in direct income.

On the face of things it becomes increasingly clear that America is being tossed between the alternate horns of a dilemma. A war of tariffs offers no pleasant prospect, involving as it does the reduction of exports;

and an import balance involving an inflow of European competitive articles is no blessing either. Nor, it may be repeated, has Europe much to congratulate herself upon; for her, too, there remains only a choice between the frying pan and the fire.

If then there is any hope of compromising between the arithmetical necessity of a surplus balance for European exports and the economic desirability of a surplus of exports for America it is of the greatest importance to make note of it. Possible avenues of escape from the dark forest towards which two continents are heading will be well worth exploring. And even if there should be no escape, it may still be important to see if possibilities cannot be detected for ameliorating so disheartening a future.

XI

Financial Factors of Amelioration

THERE are many factors that may play a part in the future trade between the United States and Europe, and much is expected from each of them in certain quarters. Perhaps it will be best to allow those that are at all promising to pass in parade and give an account of their potentialities. Is salvation to come from any one of them—or perhaps from a fortunate combination of their qualities? Or is there no reassurance for the man who hopes that America can escape an import balance without a tariff war and without a default of payments by Europe?

The most obvious way out of the necessity that Europe pay her obligations with exported goods would be the indefinite continuation of financing by America. It has already been suggested that America has been able to maintain her creditor status and her export surplus side by side only by the annual export of capital in the form of loans and investments. It has also been indicated that there is no likelihood of permanence in this arrangement.

To support this view there are economic, financial, and sentimental reasons. It has been common, in the first place, to exaggerate the extent of these loans. Actually, for the most part, the sum annually invested in Europe by Americans has been the equivalent of the annual interest owed to America. It is not, of course, suggested that the same investors who received the interest reinvested it in new European and other foreign flotations, but simply that new capital exports have been practically balanced by the net interest payments due to the United States for the same year. Actually, too, the amounts invested in Europe have exhibited marked variations, depending upon the comparative attractiveness of European fields of investment and the opportunities existing at the moment within the confines of America herself. The year 1929 may be offered in illustration as a period marked by factors adverse to European loans from America. That the American investor will suddenly develop a steady craving for European securities much in excess of his present disposition is improbable.

It has been remarked that now, with the subsidence of excitement in the New York stock market, there is a promise of a revival of extended European financing by America. But there is not the least assurance that this condition will last very long or that it will bring

about a development which could indefinitely balance the growing item of interest charges. In fact, the interest charges would only grow the more rapidly if new loans provided a greater base of principal for the operations of interest.

Besides, Europe will not look with favor upon a continuation of a state of affairs which puts her more and more in debt. Each new loan represents for the borrower not only the obligation to pay interest, but also eventually to refund the principal. European industries and governments do not and cannot regard with equanimity an uninterrupted increase of foreign obligations, and in time, pressure from private sources, and governmental regulation, will probably impose more and more restrictions upon the flotation of loans abroad.

Within America, correspondingly, there is likely to be in the near future organized regulation of the shipment of capital, particularly of gold, to European money centers. As an agency for this purpose, the effectiveness of the Federal Reserve Board is suggested by recent events. During the past eighteen months a great deal of criticism has been leveled against that body either for what some call its temporizing policy or for its attempt to curb speculation. There are those who say that a sharp increase in the rediscount rate

earlier in 1927, or in 1928, would have prevented the wave of speculation from reaching altitudes from which a tumble could not but be disastrous. Others have maintained that the credit structure—including the amount of brokers' loans—was safe in the years of the great American bull market, and that the Federal Reserve's policy of raising the rediscount rate in 1929 was detrimental to confidence.

Only a governor of the Federal Reserve Board probably knows the actual motives of its lengthy temporization and exhortations, and of its final action. To an outsider it looks as if the officials of the Reserve Board pursued a policy of necessary compromises.

The members of the Board undoubtedly realized that the financial and economic system of the United States is much more closely linked to that of Europe than political pleas for American isolation would indicate. A rise in the rate would have created a high money market in the United States, which probably would have resulted in increases in rediscount rates on the part of the central banks of Europe in an effort to retain their gold. Determined action on the part of the Federal Reserve did not promise immediate relief for the American situation, while at the same time it would have created a grave problem for Europe.

Any high-priced market, whether it be for goods or gold, will attract increased offerings. The buying market which offers the best prices for commodities attracts to itself a great volume of goods seeking sales. The money market which offers the largest interest rate on a safe basis is sure to be visited by the free funds of the world. The gold reserves of European countries were not so large as to allow wholesale shipment of their gold, and the financial powers of both Europe and America could not but have had grave reservations against any act that would have intensified the already serious magnetic pull of the New York money market.

At the same time, it is not at all certain that the easing of interest rates would have performed the service that might be expected of it. A lower rate might indeed have averted the flow of capital from Europe and might even have caused some additional American sums to seek the European money markets; but whether or not this would have happened would have depended entirely upon the temper or disposition of the American speculative investors. It is not inconceivable that if a low rediscount rate had resulted in a general feeling that the financial structure of the nation was exceptionally strong, the crest of the recent speculative wave, high as it was, might have been surpassed.

It is, moreover, a foregone conclusion that the exorbitant demand for credit for purposes of stock-market operation would have jeopardized the availability of credit for commercial and industrial purposes. And the Federal Reserve, primarily established for the control of the commercial credits of the country, was averse to imposing a penalty upon industry by its action. Neither a raising nor a lowering of the rediscount rate would have satisfied the Reserve's desire to protect both European and domestic commercial credit; and for this reason it resorted largely to warnings rather than action in its attempt to discourage breakneck speculation. When finally it became necessary to replace words by deeds, the Federal Reserve made a determined effort, in its public announcement, to differentiate between security speculation and business. Coincident with the raising of the rediscount rate, there came a lowering of the rate on bankers' acceptances.

For Europe, any raising of American rates by the Federal Reserve would have involved a similar action on the part of her own central banks as a protective measure against the exodus of funds needed within her borders. For the Bank of England and the Reichsbank of Germany to have raised rates would have been sound precautionary policy, but this, unfortu-

nately, would only have aggravated the difficulties of English and German business men. In Europe there was no surplus of funds owned by business, nor was there any surplus of credit available to it. An increased rediscount rate would have increased the operating costs of such of her business institutions as required working capital or credit for seasonal demands. If there was a difference of opinion as to the eventual result of the raising of the Federal Reserve rediscount rate in America, there could be only complete unanimity as to the effects upon Europe. The Federal Reserve system of America was in a truly difficult position, and its action, considering all factors, was probably not an unwise choice between two evils. Whether this is admitted or not, one thing at least its recent action makes certain—that the power it wields over America and Europe is formidable.

That power is likely to be brought to bear significantly upon the future international money policy of the United States. If, in spite of America's domestic needs, Europe's pleas for financial aid should fall upon willing ears, very probably the Federal Reserve system would so shape its policy as to prevent too great an exodus of American funds.

Nor does the increase of savings by the American public hold out any great promise for the maintenance

of a continuous program of increasing foreign loans. America has not yet reached a point of stability, and her growing industries and their needs will continue to create for a long time an excellent investment market. There is, in any event, no great premium on saving and thrift in America; they are hardly what would be called national virtues. The consumers of the United States have been educated to spend, not to save, and so marked is their aptitude in this respect that it is not only present, but also future, earning power that is used as a basis for sales. In America, consumer credits amounting to over five billions of dollars have been recognized as a legitimate basis for making purchases of the country's current production. No apology is necessary for the system of deferred payments—it is a constructive and essential part of the business mechanism—but from the point of view of capital, it does mean the mortgaging of a substantial portion of the earning power of the people months in advance of actual possession and the diminution, by the amount promised as future payment, of the possibilities of new credit facilities.

Finally, there is even the probability of a reduced need for American capital by European business. A great deal of emphasis has been placed in the past ten years upon the dearth of capital in Europe. There is,

it is true, a lack of capital for all of her requirements; but her nations are not penniless, nor are all their citizens poverty-stricken. There are people in Europe who possess huge resources, in some cases even larger than before the War. Even during the bleakest days of European industry—in fact, because of them—millions of dollars' worth of American securities were purchased by European investors and speculators. An especially marked inflow of European credit into the call market of the New York stock exchanges was witnessed in 1929. So much was this the case that there has been some feeling in America that the dumping of securities by European holders was the immediate cause of the stock crash of November, 1929. The significance of this feeling, it need hardly be said, lies more in the importance assigned to European participation in the stock market than in the validity of the charge made. The withdrawal of funds by Europe was no more solely responsible for the break than the American Federal Reserve Board, the maligned investment trusts, or Mr. Roger Babson and his prophecy of dour times ahead.

European capital will probably participate again in the American security market. If, however, the American business structure turns out not to be the perpetual-motion machine that people seemed to think it, there is little doubt that Europe will recover her ancient at-

tractiveness for the man who has francs, pounds, and marks to invest. While Europe struggled in a mire of economic disorder and political and social unrest, America gave an extraordinary exhibition of a prosperous condition that promised to be permanent. Nothing has really occurred as yet to indicate that American prosperity can be seriously and permanently interrupted by the abuse of its mechanisms. But it is possible that European investors may feel that they have discovered an Achilles' heel in the hitherto invincible body of American business, and that the cry of essential stability in the United States is only an empty vaunt.

Even regardless of these conjectures, however, it is likely that, in view of the recession in America, a portion of the European capital invested in America will seek repatriation. To the extent that this capital seeks domestic employment, a decrease in the demand for American financing takes place; and since the uncertainty existing at present in America promises to coincide with somewhat increased stability and self-assurance in Europe, one may even expect European capital to supplant, to some degree at least, the need for American funds. This situation increases the unlikelihood that new annual loans can continue to offset the interest receipts and thus stave off an American import balance.

Two developments in American industry will tend, however, to offset the effect of the repatriation of European capital. If by some combination of circumstances the domestic market seems for a while less receptive than it has been, those American industries whose products are subject to foreign sales exploitation may be depended upon to develop their export markets with typical American vigor and ingenuity. If for this purpose the extension of credit proves to be essential, there will be no dearth in the offering of credit facilities for foreign purchasers; just as there was no grudging of credits in the development of the domestic consumers' market. Although the sum used for this purpose may do no more than modify somewhat the American-European situation as a whole, the modification will doubtless be welcome.

Simultaneously, there will probably be a marked tendency to increase direct investments in Europe and in strategic parts of the rest of the world. As the tariffs of Europe and America threaten a deadlock in the economic arena, there will be many such attempts to escape the consequences of the embroilment. Notice has already been taken of the present trend of American investment in foreign enterprises—the procuring of subsidiaries and the purchase of equities in established foreign companies. Unless a strong public

antagonism to this process develops in Europe or the tariff tension relaxes, the lack of American loans may also be balanced, at least in part, by an increase in American enterprise in Europe. If, however, American enterprise in European countries should become really large, many forces will no doubt rally to the standard of "Europe for the Europeans," and unfavorable legislation, boycotts, and much other unpleasantness may be foreseen. It is safest to assume, however, that Europe will not be so much ill-disposed to the establishment of American branches, as she will look with decided disfavor upon the purchase of large or controlling interests in domestic business institutions. It cannot be said that such an attitude would be marked by historical precedent, fair-mindedness, consistency, or absence of sentimentalism.

Even if America's loans to Europe do not diminish, or do increase slightly, the flow of capital will be feeble in comparison with the eventually larger and constantly expanding torrent of interest payments. If the saving grace is to be sought in loans alone, hope for the maintenance of America's international financial *status quo* vanishes completely. If, therefore, there is still a financial factor that holds out the promise of a solution, the search must be continued.

Unfortunately, the shipment of gold, the only other

financial possibility, does not bring the required reassurance. If European nations possessed a sufficient excess of gold above their reserve requirements to enable them to pay their obligations to America, a single shipment of the principal amount would obviously eliminate the necessity of interest. And even if this were not possible, the payment of the annual interest charge in gold would make the employment of goods for the same purpose unnecessary. Undoubtedly some of the European countries will balance a portion of their interest and debt to America by means of gold shipments, and it must be remembered that, in spite of the tremendous exportation of gold to the United States during the War, the central banks of Europe have larger specie holdings today than they had in 1913. Before the War gold was a fairly common medium of exchange in many European countries, but it was withdrawn from circulation during the conflict. Part of it was probably hoarded by private citizens, and a large portion has been recruited by the reserves of the central banks. European currency is today supported by gold, rather than representative of and freely exchangeable for it.

But even if the central banks were at all disposed to release their holdings of specie, there would still not be enough of it in Europe to cover anything like the total

indebtedness of the Continent to the United States. Moreover, the release of gold by the central banks of Europe is unthinkable. A large export would be inimical to Europe's price structure and might spell destruction for her currencies. With the decrease of reserves, there would be fewer ounces of gold with which to buy the products of industry and commerce, and each ounce would command an increasing tribute from the results of business. The value of gold would increase, and, if an attempt to hold the present internal values of moneys were made, the prices of commodities would tumble headlong. If gold standards were eliminated, Europe might be thrown back to a fiat paper currency, and only the faith of the people and the printing presses would determine her money values. The threat to stability would be too great to be countenanced by the European central banks or even by America, whose interest in a stable situation on the Continent is generally recognized to be no small factor.

For America, besides, an influx of gold would generate a period of inflation. Prices of American products would rise so steeply that wages would have to be increased and exports would be seriously impaired. Already America possesses over a third of the world's gold supply. More would be highly unwelcome. The

use of gold as a basis for settling the debt problem of Europe and America is not possible, but if it were, responsible men here and abroad would think twice before they hurled the world into a condition of financial and industrial chaos. At the most, small shipments of gold may be made from time to time, to be used for balancing some of the interest due to the United States.

There remains perhaps still another financial possibility, but, although it is considered as such in scattered groups, it can be immediately recognized as practically out of the question. If America reduced the debts owed by European governments, or better still, canceled them, obviously the part they play as a factor in the interest charges would be eliminated.

It has already been seen why European moral contentions for a further reduction or a cancellation of debts are untenable from an American point of view, and why America is unlikely to acquiesce in such a procedure on grounds of sentiment and justice. It is often claimed, too, that debt annulment would enhance America's position and good will in the world. There is little to prove it. During the past fourteen years America's prestige has run the gamut of emotional reactions in Europe. Inordinate enthusiasm was followed by astounding denunciations. A courier of good

will is canonized one day and forgotten the next. There can be no real quarrel with Europe's mercurial moods. After all, the burden of the late War weighs heavily at present on the shoulders of her people. The benefits seem to be resting wholly in American hands. If fifty years from now the burdens of the War shall have been transformed into huge benefits, if Europe should rise to a new order of affairs that eclipses even her pre-War grandeur, one may be certain that there would be forthcoming from Paris, Rome, or Brussels no gratitude for debt-cancellation.

It happens, however, that there is a business reason for at least some consideration of debt cancellation on the part of America. When in the long run America must accept an import balance, Europe will have to pay the interest and principal on her war loans in goods. A third of a billion dollars or more is certain to represent this war-debt obligation unless previously canceled or reduced. The cancellation of the debt is equivalent to the loss of an asset and the elimination of an income that would normally swell the United States Treasury without recourse to taxation of the American people. At the same time, the elimination of the war debt as a factor would reduce the surplus of imports over exports that America will have to accept by over a third of a billion. Over three hundred million dol-

lars' worth of competitive goods would be eliminated from the markets of the United States, if cancellation were effected.

At present, and for some years to come, the preference nevertheless will be decidedly for the maintenance and the collection of the debt. Not before the problem of an import balance really confronts us, will the unpleasant suggestion of a debt annulment find many supporters, and even then there is no certainty of substantial modification. Americans may continue to feel even then that the funding operations were a sufficient concession to Europe. But the terms of the Young Plan extend over a period of sixty years, and much can happen before 1990.

Finally, it should not be forgotten that even a sudden and complete erasure of Europe's war obligation would not solve the problem completely. The largest part of Europe's obligations to America is and will be private in character.

With the dissipation of the chances of debt annulment, there goes the last probability of an even partial financial adjustment of the paradox of creditor status and export surplus so dear to the American enthusiast. If, then, the economic miracle is to be performed, the magical formula must come from non-financial sources.

XII

Non-Financial Factors of Amelioration

It was stated earlier that the existence of an export surplus for the United States during the nineteenth century was actually in payment not only of the annual interest debt, but also of the service charges that Europe levied upon America. Immigrants' remittances, insurance and freight charges, and tourist expenditures were the major service charges, and, as we saw, they still are. It is now time to return to these in order to examine their future significance in the international balance of trade between America and Europe.

Before the War, no year failed to record the arrival of large numbers of immigrants, who landed on America's shores full of eagerness to work and support the parents, wives, children, and other dependents they had left at home. That situation has changed radically. America is no longer a pioneer nation requiring manpower. The growth of the population and the superlative mechanization of industry have made the open flood-gates of pre-War America entirely unnecessary

and even undesirable. Organized labor in America has been particularly anxious to eliminate the competition of workers not yet tutored in American standards of living, especially now that there are more people in Europe than ever who want to swing a shovel in America. Like all favorably situated guilds from time immemorial, organized labor has striven—and with success—to maintain a shop closed to a surplus of recruits and apprentices.

Sentiment, too, has played its part—just as sentiment had once upon a time pointed with pride at America's open portals. These open gates were once held to be an incontrovertible proof of the success of the American democratic venture. A few years ago, they were considered by large numbers of people as little more than open invitations to Red agitators and other disturbers of the political or moral *status quo*. Then, too, all America was genuinely frightened by the size of the emigration that an economically unfavored and politically disrupted Europe can put forth. In any event, and whatever the reasons, the flood-gates have been slammed in the face of the immigrant, and what was once a torrent has become an insignificant rivulet through predetermined and extremely narrow quota channels.

The reduction of immigration has brought with it

as a natural consequence a sharp decline in the amount of immigrants' remittances. In 1928 these were only two-thirds of what they had been as recently as 1922, and the stream of funds that used to flow, like the Gulf Stream, eastward to warm the homes across the Atlantic, is now only an occasional summery current. There will probably not be any alteration of the American immigration policy; and, as a result, there will be a constantly decreasing flow of money into Europe from this quarter. As time passes, the old lines of communication between immigrant and dependent will become more, rather than less, attenuated. Under the supreme economic law of death, fathers and mothers will have been replaced by second and third cousins. For the most part, the old tintypes of the home and the family have already faded. People whom one has not seen inspire little sentiment. Immigrants' remittances have lost much, and will lose more, of their significance in American world trade.

A new form of personal financing grew up immediately after the war which, for a time, filled the gaps left by immigrants' remittances. After 1918, millions of dollars were shipped to Europe for the restoration of destroyed areas, for the feeding of starving children and adults, for the rehabilitation of agricultural and industrial districts. Exact figures are not available for

the first four years, but a conservative estimate of two hundred million dollars annually may be accepted. This movement has long passed beyond its peak. Charitable contributions have fallen off to a marked degree since 1922; since then they have never exceeded seventy-five million dollars annually and they are at present closer to the fifty million dollar mark. Only if Europe should again show symptoms of acute distress is there likelihood of another increase in contributions. Europe has passed her period of direst need; and a decade of constructive endeavor is behind her. Charitable offerings are, moreover, very shifting sand upon which to build an economic relationship, since there is nothing to safeguard their extent or continuance.

Freight charges present a peculiar situation. Although the War inaugurated some revival of America's early maritime strength, and for a short while promised to restore it completely, there are no indications that the bulk of America's cargoes will be taken away from vessels flying European flags. If world trade is large, the freight bills Europe will render to America will be substantial, whereas, if trade is small, they will play an unimportant role. Shipping is obviously a result and not a cause of trade. One cannot predict exactly the quantitative place which shipping charges will fill, but inasmuch as they depend directly upon export and im-

port figures, and not vice versa, they cannot be expected to affect fundamentally the solution of the international financial problem. However, they will undoubtedly have some part in the modification of the difference between exports and imports, and will enter into the balance of trade.

Fortunately, goods are not the only articles carried by ships. Hundreds of thousands of Americans have added themselves and their purchasing power annually to the trade cargoes that seek markets across the Atlantic. Their exchange of American money for European services has for long been a ponderable factor in the balance of trade, and since 1926 their numbers have grown by leaps and bounds, till they have become an army of occupation.

There is no United States customs tax on the beverages drunk in Germany, or on the countryside enjoyed in England, or on the hotel charges incurred on the Côte d'Azur. There was no tariff on the $782,000,000 of tourist expenditure in 1928. There is, to be sure, a substantial tax on purchases that return with their owners to America; but a personal exemption, a period of wearing, and a holiday spirit combine to keep the customs officials busy and the revenues at a minimum.

The credit granted to Europe by the tourist is the

largest single item in America's European trade. If, then, to the figure of over seven hundred millions another billion could be added, there might be some growling on the part of individuals who resent the Americanization of Europe, but there would be a prompt solution to America's and Europe's balance-of-trade problems. America would retain her creditor status, and Europe would be able to continue her purchases of American goods and to make payment on debts.

A substantial increase in American tourist expenses is not of course impossible, but it is by no means a certainty. The huge increase in tourist travel has depended upon American prosperity. If the nation's business suffers a reaction, the sympathetic vibration of tourist travel will be diminished proportionately. Students and teachers may continue to make their "crossings," but they generally have the humble objective of study abroad, and their expenditures are subject to a rigid economy.

Finally, the cost of living in Europe in the places accessible to the average tourist is by no means low. America's material well-being is enviable, but after all, in a nation that has only some four million income-tax payers in a population of one hundred and twenty million, there are fewer plutocrats than Europeans

think. Any substantial increase in the army of tourists in the future would have to be composed of a large number whose expenditures will necessarily be small and whose extravagance will be kept within narrow limits. The parsimonious tourist will be no great economic acquisition.

Nevertheless, there is still an excellent opportunity for Europe to attract even larger groups of Americans than now consume her foods and frequent her spas, theaters, and shops. They would bring with them American money and American habits of spending—both the results of an industrial and educational development long in the making and still in process. They would carry with them a devotion to things foreign and a disposition to consider European products in their native environment desirable even at high prices.

It may be all very well for Europeans to view with dismay additions to the horde of Americans that crowds their streets and boulevards, fills their theaters and shops, and stampedes their favorite resorts and places of recreation. Regardless, however, of European private sentiment, this much must be allowed: If Europe considers it good business policy to invite to her shores a large and active consumer market, she should proceed to use those agencies and instruments which have proved most efficient in the winning of a sales market.

The first element of any such policy would be a knowledge of the consumer's desires, the second would have to be a product that should satisfy those desires, and the third must be a story such as will convince the consumer that the product fills a long-felt need. Crude and American terms, these! But after all we are only discussing an appeal that Europe might make for American patronage.

The American tourist is either wealthy or in moderate circumstances, but he is seldom really poor. He may have been through one of his country's many colleges, and he has almost without exception completed a course of elementary instruction. He and his family may be members of some local educational group or subscribers to book clubs; they are avid readers in any event, and devotees of the motion pictures, which have entertained them more than once with real or artificial scenes of far-off places and peoples. These people have taken for their own Shakespeare and Milton, King Arthur and Robin Hood; the French Revolution and Napoleon; Da Vinci and Michelangelo. If they stopped with the beginnings of their own national art and literature they would feel that they were poor indeed. They need however, only to trace their ancestry back a few generations to find themselves legitimate heirs of Europe's culture and fascinating past.

Stratford-on-Avon by name and history is as familiar to Americans as many places they have actually visited in the United States, and all the more interesting because it has not yet been seen; and the fact that an ocean trip has to be undertaken in order to see it gives it a further attraction over Gettysburg, Lincoln's birthplace, or Washington's Mount Vernon home. King Arthur's Round Table is no mere folk-legend to the man who read the *Idylls of the King* in an American school. The huge circular table-top that hangs on the wall of an old church in Winchester may not be authentic, but the potential tourist is no archæologist or caviling historian. If he were, he would probably attract less attention and be less of a consumer acquisition in Europe.

Time, too, has a peculiar fascination for the tourist mind. Landscapes, mountains like the Rockies and the Andes, and canyons may antedate a Tracy Hall by æons, but nature is generally without age for the human mind. The Magna Charta parchment, the art treasures of the Louvre and the British Museum, the instruments of Beethoven or Mozart are old in a human sense and are part and parcel of an American's heritage, no matter how obtuse he may personally be to shades of beauty.

Then there are directly back of the hundred and fifty

years of American history, centuries of British life. The American-schooled man, no matter what his actual ancestry may be, accepts the apparently prolific members of the Mayflower as his foster-ancestors, and recognizes Edmund Burke as his spokesman in the halls of Parliament. England is especially well situated in the favor of tourist trade and tourist possibilities, but practically every nook and corner of Europe is homeland, as may be gauged from the heterogeneity of past American immigration. All told, then, the tourist field offers an excellent opportunity for European exploitation.

Much of the market has already been made available, it is true, but at least for some time to come much of it will still be virgin territory. What alone is doubtful is Europe's success in gathering the best possible harvest with its present methods, for Europe is not yet experienced in the art of handling a fairly saturated market, such as tourist trade threatens shortly to become. Europe is singularly remiss in its appeal efforts—if not remiss, at least inefficient or indifferent; and she shows an even more singular disregard for the comfort and convenience of her annual visitors.

American tourists find no equivalent for their domestic appurtenances of comfort in any place other than the best hotels of the large cities of Europe. That the absence of physical comfort has not been a barrier to

American travel indicates a degree of eagerness to visit the Old World which should be encouraging; but the lack of good housing and proper food is an adverse factor in the increase of American tourist travel. It may be an amusing idiosyncracy that prompts Americans to desire a private room and bath, but the host who has guests to cater to is the one who reckons with their requirements.

The lack of any accommodations at all in the smaller cities—and of any at reasonable cost in the larger cities—must serve as a deterrent. There was one recent instance when this fact was recognized. A survey of London showed that there was a marked disparity between the number of available rooms and the size of the seasonal crowd. There were out-of-the-way accommodations of a primitive character without bath or other conveniences, but these are naturally not greeted with delight by the tired visitor. The American's attachment to the bath-tub may be comic, but the possible alienation of the tourist from London is not amusing from the economic standpoint.

In passing, it might be noted that although America has her material welfare rooted in the system of standardized production, she does not generally feed on a diet of standardized products. For nations priding themselves on having escaped American standardization, it

seems a trifle incongruous to serve in every hamlet, village, and town the spring greens of England or the vitello of Italy as if these were prescribed by orders from the crown or by a proclamation from the Fascist overlord.

Certainly it would appear that the present tourist expenditures are subject to expansion. Nevertheless it is improbable that they will grow to proportions nearly large enough to cancel the debt obligations of Europe.

There are some who see in the increasing importations from Europe of art objects—which are not strictly "invisible"—still another non-financial way out of the debt puzzle, especially since works of art usually enter the ports free of customs duties. The old masters also have their place in international business, and it is even possible that those sons of the wealthy and commercially-minded republics of Renaissance Italy, if they could see the role they are playing, would not be entirely displeased. Certain it is that they would be interested in the incredible prices they can now command so many years after their death.

Century on century, Europe hoarded the works of her gifted children, both those whom she nourished and those whom she let starve. Her art galleries, age-old castles, and time-mellowed cathedrals grew fuller and fuller, until it might be said that Europe herself

was one vast museum. Upon this rich store, America, conscious of an inferiority on her part, has long cast desirous looks, and with the phenomenal growth of wealth in the United States this longing has begun to satisfy itself as never before. In 1927, imports of this character assumed a very respectable place in the ranks of material goods, standing fourteenth in order, between burlaps and cocoa. Opulent citizens and well-endowed civic museums vie with one another in bringing the work of the old masters to America, and their activities command the space of newspapers and rotogravure sections almost as freely as divorce cases and battles on the gridiron.

Rare books and manuscripts are not less in favor, and a whole class of bibliophiles has arisen in the United States. Auctions of such rarities are public events, and a Gutenberg Bible shares a place with prohibition and the stock market as a dinner topic. Already, too, the sudden predilection of Americans for antique furniture strips the panels of an English country estate; even though not infrequently it is the manufacturer of "authentic" antiques who benefits by the demand.

Since many millions of dollars in art objects of every sort are imported annually into America, it might be suggested that, if Europe urged America to accept pay-

ment in kind for her international debts, by no means least in the list favored by the United States would be the marbles, bronzes, canvases, and manuscripts in the museums of the capitals of Europe. The suggestion will never be made. Europe is justly too proud of her possessions. At no point may the cry against "American conquest" be raised with more vigor and effect. Great as is the enthusiasm for European art, and extensive as are the purchases of books, furniture, and paintings, they will probably never be important enough to bring by themselves a solution of the financial problem. America's desire to buy will always be limited by Europe's reluctance to sell, and at the most, the Rembrandts and Da Vincis will bring only a small reduction in America's import balance.

The story of the invisible items is roughly told. Within the list there appear factors that may, at the very most, delay the effects of America's creditor status and modify the extent to which it will impose an import balance upon America. But there is no reason to believe that from any one of the factors or from a combination of them will come an invalidation of the laws of arithmetic in this very Euclidian world of business. Interest will be mounting all the time according to a fixed law of progression, while no such compulsion will bear upon any other factor in the bal-

ance of trade. That the United States is eventually to be faced with a surplus of imports over exports still seems incontrovertible.

The question is therefore no longer one of how this situation is to be avoided, but how it will be handled, and in the story of its handling lies the essential character of future trade. Will it be handled wisely, with an eye upon the least possible harm and the greatest good? Or will everything be left to political passion, ignorant and near-sighted tinkering with tariffs, or simple chance?

XIII

Circumventing the Tariff

GREAT emphasis has been placed throughout the preceding chapters upon the inevitability of an American import surplus. To those who question this conclusion by pointing to the tariff, it must be answered, with full consciousness of the tariff's effectiveness, that, when the creditor status of the United States fulfills its role, any tariff short of complete embargo will be impotent to prevent a balance of imports over exports.

The mechanics of finance operative in foreign trade will be the means by which the national sovereignty of the United States will be set at defiance. These mechanics have always been a factor in the past. They are simple in design and operation, and they are unfailing in their action and effect.

It has already been pointed out that, when a nation sells abroad, it creates for itself a credit in the money markets of its customer's country. Theoretically, in order to discharge his obligation, the foreign customer

has to procure funds in the currency of the seller's nation; but actually he does not do this any more than a bank pays cash directly to other banks who hold its checks or receives from them the specie equivalent to the drafts in its possession. The necessity for such shuttling back and forth is eliminated by the process of clearance. In a similar manner, a foreign debtor, wishing to discharge his debts, purchases bills of exchange which represent a credit to the buyer's nation in the country of the seller; or to put it the other way about, a debit in the seller's country in favor of the buyer's country. If for the sake of simplicity only transactions of goods be considered, the bill of exchange which the buyer purchases has been created through a sale made by one of his compatriots. When the total of credits which one nation possesses against another is equal to all the debits, the exchange of each country will be at parity. Once, however, the balance is disturbed, there comes into existence the condition on which inequality in exchange rates is normally based.

If, for example, the United States had credits amounting to £200,000,000 as against a claim upon dollars possessed by England of about $750,000,000, England would find it necessary to buy dollars to reach a balance. The demand thereby created would put a discount on sterling and a premium on dollars in obedi-

ence to the simple dictates of the law of supply and demand.

Before the War, when nearly all civilized countries were on a gold basis, this premium and this discount in international exchange rates were ordinarily very slight, being limited to the actual cost of shipping gold to the nation whose currency was at a premium. But today, the possibility of making such a shipment of gold exists practically for the United States alone. If, at the present, there should develop a very strong call on a European nation's money, its discount would probably be subject to no pre-War limits of variation.

If, therefore, America in 1930 should decide to exclude European imports and at the same time fail to ship capital at a rate sufficient to allow Europe to pay for her purchases from this country, the results would quickly be noticeable. In the money markets of the world there would be a great demand for dollars, with which to pay for American goods, and there would be a correspondingly smaller demand for francs, pounds, and marks, as a result of the comparatively slight American purchases of European money. The franc, pound, and mark would fall heavily, to a considerable discount. The dollar would rise steeply, to a substantial premium, and would buy a larger fraction of a pound

sterling and a larger number of francs and marks than formerly. But it is hardly likely that the internal values of foreign currencies would experience the same discount they suffered in foreign exchange.

A dollar, then, being exchangeable for more francs, pounds, and marks than previously, would purchase a larger supply of French, English and German goods; which is another way of saying that the prices of European commodities exported to America would decrease. At the same time, American dollars would require for exchange a larger amount of foreign currency than before; and this in turn is another way of saying that foreign money would be able to buy less in America than before, or that American export prices would rise substantially. The same effect would be felt, of course, by any other nation whose currency was at a premium.

The tariff might do much to determine the degree of depreciation that foreign exchange would have to suffer, but it could not hinder a solvent nation from seeking and finding a balance of its international budget through the only device available to it—the exportation of goods. Unless it is no longer true that price is a factor in demand, America would become, as a result of her financial advantage, an increasingly dis-

advantageous market for the world's buyers; and conversely, Europe would be converted, due to her foreign exchange disability, into an increasingly advantageous place in which to make purchases.

As Europe developed a depreciated foreign exchange currency, the purchasers of the world would avert their faces more and more from the taboo of relatively high prices established in American markets, and embrace instead the advantage of purchases in Europe. America's export trade would then become Europe's and the development of European credits in the world's money markets would be well under way. This situation would continue until the credits created abroad by Europe equaled the debits established by her own purchases, her receipt of services, and her interest obligations. Finally, when the demand for European currency equaled the supply in the world's money markets, the foreign rates of exchange would reach an equilibrium, and the buying advantage in Europe would come to a point of rest; but not until then.

It must be said that it would be unfortunate if the Gordian knot of world trade were to be "untied" with a sharp edge that hove large pieces from the international value of European exchange. It would be far better if foreign markets for Europe could be created

by a method less drastic than one that would jeopardize the stability of a continent.

If Europe could only manufacture products that were non-competitive with any American industry, there would be less chance of either a political free-for-all on an economic issue or an explosion in the international exchange. And in days like these, it does not seem impossible for ingenious industrial institutions to plan and develop new products that have never been used before. One unfortunate characteristic of these items is that they are to be so thoroughly the products of future imagination that they cannot be visualized now by anyone not gifted with the pseudo-scientific imagination of a Jules Verne or an H. G. Wells. But this inability on the part of the products to declare themselves years before they make their appearance does not necessarily rule them out of the realm of probabilities. It need only be realized that scores of necessities and accessories in present-day life were not even conjectured to be possibilities ten or twenty years ago.

If Europe could produce quantities of the new products of tomorrow, there would be little or no tariff for her to face, and by the time some American interest had developed duplicates with a claim to protection, the products of the Continent might have become ob-

solete and been replaced by still newer ones. Before the War, chemicals were freely imported from Germany because there was in existence no American chemical industry to protect; then the War came and developed a substantial domestic industry and an appreciable need for its protection. To remain effective against all contingencies, the American ideal of protection would have to be extended from a principle of infancy-care to one of pre-natal nurture.

If, however, the possibility of important non-competitive novelties does not seem on the face of things to be overwhelming, the last ray of hope has not yet disappeared. Although more than sixty per cent of Europe's exports to America are subject to American import taxes, the importance of each of the dutiable items to the well-being of the United States is by no means equal. The automobile is probably the most important single item in American economic life, and yet the reduction of a tariff on foreign cars has been productive of no harm to America. The reason is not far to seek—the relative structure of the American automotive trade has been such that even the removal of all import duties on automobiles would have done little to injure the United States or to comfort Europe.

There are items the production of which engages only relatively few individuals in the United States

but which are essential to the livelihood of many thousands in Europe. The lowering of the rates on these items would be of great benefit to Europe and of comparatively little harm to America.

This must be chilly counsel to some in America, and indeed there must be no discounting of the difficulties of those engaged in the trades that would be adversely affected. But we should no more be halted by this consideration than we were by sympathy for brewers and their employees who saw their assets and employment swept away by the great social experiment of Prohibition. Nor should the rapidly passing iceman and his ice be left unmourned. For decades, besides, there have developed almost hallowed tones for the story of the benefits that labor derives from the installation of labor-saving devices. It may or may not be true that fifty or perhaps even ten years from today the further mechanization of industry will bring further benefits to the masses. But this must be small solace to the member of the musician's union who sees his place in the picture palace usurped by some lines on the edge of a film and vacuum tubes on the side of the screen. His is an especially pathetic plight since he has no doubt spent the larger part of his life preparing for his profession, and since his adaptability to other ways of earning a living is probably greatly impaired. But his

situation is not radically different from that of the mechanic or artisan who, in the first flush of unemployment, finds his skilled labor taken over by a few screws and gears.

It is for progress—whatever this progress may be—that such sacrifices are involuntarily made, and legislation has not as yet learned to protect man against the ruthlessness of his own social and inventive development. Similarly and very definitely, for the good of the nation as a whole, one might venture to suggest the reduction of tariffs on some of the protected products in favor of Europe's offerings. It is to be hoped and expected that labor is mobile enough to find new fields of enterprise for those left unemployed: and considering the fungus growth of new products in America, this may not enforce too long a period of idleness upon the workers. As for capital, though less quickly adaptable, its plight should be relieved by the generally prosperous condition which would result from the easing of international trade difficulties. It is true, after all, that national well-being calls every now and then for the balancing of an individual sacrifice against the common good, and that sacrifice can be made in peaceful trade relations as well as in battles or in a campaign for social reform. To each his sacrifice—

The Soldier rather than leave his post in battle,
The Physician rather than leave his post in plague,
The Pastor rather than teach falsehood,
The Lawyer, rather than countenance Injustice,
The Merchant—What is his due occasion of death?

The relations between the United States and Europe cannot, however, be treated as if they concerned these two parties alone; they cannot be separated from the contacts of either with the rest of the world. The economist expresses this idea sometimes by saying that world trade is "triangular," although "multi-angular" is what he ordinarily means. It is not infrequent for the routes of world commerce to wind from one port, around the world, and back. India may be a vital factor in the interdependence of two nations that never deal directly with each other. If Indian jute, for some reason or other, became unacceptable to the country of Afghanistan, India's foreign purchasing power would be noticeably affected. And since she is a large consumer of cotton goods, her inability to export jute might affect her ability to import cotton. If so, then the mills of the country which derived income from the sale of cotton goods—it might be America—would be adversely affected by the action of Afghanistan, a country with which the seller of cotton goods might have practically no dealings.

It must be obvious, therefore, that by means of the mechanism of intricate trade relationships, one nation may perpetually buy more from another than it sells in return—that is, it may maintain a greater debit than credit with that particular nation. In this way, even if Europe is compelled to maintain a surplus of exports, it does not necessarily follow that America will have to accept all of it.

In accordance with the multiple relationships among nations in trade, America may maintain a substantial surplus of exports in its commerce with Europe, while the latter, on the other hand, seeks and obtains for its products foreign markets elsewhere. These in turn may produce raw materials and finished goods which they then would sell to America in excess of their purchases from America. Thus, American business creates a credit balance in Europe; Europe creates a similar credit balance in the far-flung markets of the world; and these in turn create a credit balance for Europe in the United States. Or, to put it differently, a demand for dollars exists in Europe and a supply exists elsewhere; Europe then builds a credit in those markets which offer a supply; with this credit, Europe can procure the dollars she finds available there and send them as payment to her creditor, the United States.

Nor is this condition merely a recent or a future

development; actually it has been in existence for a great many years. Out of the recent import totals of the United States, 64% or over two and a half billion dollars' worth was duty free and represented mostly goods from the tropics and the East. For a long time these areas have sold America a greater dollar volume of goods than they have imported, whereas Europe, as is well known, has for many decades imported more goods from America than she has sold to the United States. Part of this surplus was equalized by the invisible items, which were in Europe's favor; but a part was no doubt balanced by the surplus of European exports to the tropics and the East.

At the same time, it must be clear that the triangular base of world trade can under no circumstances alter the arithmetical dictum that sooner or later America must register an import and Europe an export surplus. The trade of the world is devious in fact, but its effect is really no whit different from what would happen if the relationship were strictly one between two nations. Whether the goods that a debtor country ships are in one consignment to its creditor, or in a hundred parcels going to various countries separated from one another by oceans or Himalayas, the result is the same. A creditor nation must receive a surplus of imports; a debtor nation must ship a surplus of exports.

Much, however, has been expected in many circles from triangular trade. It has been held that the complex relationships of nations hold out the possibility of American tariff remaining intact while Europe paid with non-competitive goods such as America normally consumes. All Europe would have to do would be to create enough credits in foreign countries that produce raw materials, and payment to America would be squeezed through the customs barrier.

As the triangular arrangement of trade exerts its influence, the nation which possesses an unfavorable balance of trade with one country must win for itself a favorable balance elsewhere. If Europe's necessary credit is to be created in the world money markets through the sale of goods to some third nation, the latter in turn will have to sell enough goods to make payment possible. And so the circle continues to close until we find at last that the goods have been bartered in amounts sufficient to offset debits against credits. When, nevertheless, the suggestion is sometimes made that Europe in general or Germany in particular should not seek the highly prized and protected markets within the United States, but the distant areas of the antipodes for its markets, there should be some reservations. In the markets of the world outside of the United States, it is true, there are available for Europe

areas around which American sovereignty cannot pile high walls of tariff. Local autonomy may result in other tariff barriers, but then there will be equal obstacles to all foreign traders, and America will have no advantage which is not inherent in her methods and effectiveness. Many of these markets, too, are not unfamiliar to European suppliers by whom they were regarded as proper sales provinces until the War weaned and estranged them. The memory of these markets in Asia, South Africa, and other areas has by no means died out in Europe and repossession of them will be facilitated by her thorough knowledge of their requirements and character.

For the exploitation of undeveloped areas, however, a long period of patient incubation as well as considerable financial support are absolutely essential. Nor would even the already developed regions of the world be simple matters for Europe to exploit. American competition has made itself felt everywhere, and although a reduced exchange rate may be the lever with which Europe will pry markets away from America, it would be better for her if some force more constructive and less disintegrating than a depreciated currency could be used.

In the development of foreign markets outside of the United States, moreover, Europe may find herself

face to face with a problem which will cast her back again to the Scylla of American predominance. If the purchasing power of the markets which Europe seeks to win is dependent upon American purchases for the creation of a sufficient credit in the world money markets, it is obvious that America becomes a third party to the transaction. It may reasonably be assumed that those nations which ship raw materials not produced by the United States will not have to overcome a substantial or prohibitive customs duty. Yet the consumption of their products will be only proportionate to the active requirements of American users—which in turn will be closely related to the state of American trade as a whole.

If domestic trade in America continues to expand, the use of foreign raw materials will naturally increase. Such a development may indeed be expected, as long as it is not forgotten that American export trade is a vital factor to American domestic stability. To the degree that exports are elements in the internal trade condition, they determine consumption of foreign raw materials. The loss to America of her foreign markets, resulting from foreign tariffs or from European competition, could easily bring about decreases in purchases from the nations that ship raw materials to the United States and buy finished goods from Europe. If, on the

other hand, the countries which Europe wins as customers are shippers of finished goods to America, trade conditions within the United States may have the assistance of a retaliatory customs duty in restricting to the point of exhaustion American purchases, and thereby indirectly European sales.

Finally, the development, at least in the immediate future, of distant markets by Europe through the process of triangular foreign trade is clearly of vital interest to America, as a loss of a substantial portion of American foreign trade would be the natural consequence. These foreign outposts are unlikely to develop in the very near future a demand sufficiently wide and various to absorb both American and European exports. If only one of the two exporters is to be welcomed, the conflict will resolve itself into a struggle between the American advantage of lower costs and European compulsory underselling.

In view of these possible and probable developments, it must be obvious that the trade relations of the nations of the world can exert a profound influence upon America, and that the reverse is also true. Throughout the centuries, the practices and demands of world commerce have woven the economic life of the nations into a sensitive and many-colored whole. No special instrument is needed in the modern world to discover and

record significant commercial disturbances in far-off places; the arteries and nerves of the organic body of world trade make one component part a partaker in the sufferings of every other part. For America or any other nation to hide its head in the sand in an effort to avoid seeing the facts or being visited by them, may be understandable, but highly inadvisable.

AMERICA LOOKS ABROAD

XIV

America's Choices

America is greatly interested in her exports to world markets, if not in her imports from world suppliers. This fact alone should be sufficient to dissipate the myth of economic isolation and self-sufficiency. The interest in foreign markets (which America shares with other countries) projects innumerable spans that link the nations together; and over these stretch broad avenues of industrial and commercial traffic. If, as has been shown, the ultimate relationship between America and Europe is only modified, not fundamentally changed in character, by the intricacies of the co-öperation that exists among continents and nations, it becomes necessary to focus attention once more upon the problem of imports and exports.

When other items in American international trade were assumed to be stable, it was not difficult to foresee an American import balance of at least a billion dollars. In the light of the possible, indeed probable role of these items in effecting a reduced necessity for such

import surplus figures, a revision becomes necessary. The unknown course of future foreign financing and the uncertain story of future services and tourist travel do not give a firm basis for determining exactly the amount of reduction in the import surplus to be expected of them, but a reasonable guess may be made. If it be assumed that the course over the next ten years is to be generally along lines already indicated by contractual requirements and past performances, the American import surplus should total an amount varying from two hundred and fifty million to one billion dollars annually, and a more definite estimate would place the amount at about five hundred millions of dollars. There is nothing scientific about this estimate, but neither is there anything fantastic or far-fetched in it. It is a common-sense estimate of an import balance so subject to the flux of many of its factors that it must necessarily be represented by figures that allow considerable latitude.

The five hundred million figure may be checked by those who are skeptical of general estimates, and interested in burrowing into the details of statistics. At the present time Europe and America are approximately in balance on invisible items. The surplus of American exports is being financed by the surplus of American export of capital. With increasing interest obligations

and the growing influence of government debts, the credits in favor of the United States resulting from capital exports and other invisible items will in five years very likely reach the figure of five hundred millions. This does not mean that necessarily five or ten years from now America will have an import balance of five hundred millions. But it should be clear by now that any expanded program of foreign financing will simply postpone the date when the import surplus of the United States reaches such magnitude

In world trade a figure of five hundred millions is not a staggering amount; and it is likely to become of less importance still if the business transactions of the nations continue to increase in volume at a rate anything like that which has characterized the past two decades. But an import balance of five hundred millions is an important figure to America and can wield a considerable influence over the business possibilities of the nation.

The latest statistics available indicate that the balance of exports over imports at present amounts to about eight hundred millions. If this surplus is replaced by an import balance of half a billion, the total decrease of American exports will be not merely five hundred million, but thirteen hundred million dollars. That is, if American imports remained at the approximate figure

of $4,300,000,000, our exports would have to be boiled down to a total of only $3,800,000,000. The reiteration of billions upon billions may be a trifle bewildering, but the fact easily grasped is that America would lose about one-fourth of her foreign market. A billion dollars represents nearly fifty per cent of the automobile business of the United States, and is twice the total annual sales figures of the entire radio industry. It is more than equal to the total expansion promised in November, 1929, by industrial leaders, in the series of conferences which represented one of the most constructive moves made by any American administration during a time of stress.

No amount of national self-assurance can convince the student of hard facts that the export situation raising its ugly head over the horizon is of no concern to America. Let it be assumed that a new tariff bill reduces America's imports from four billions to three. It may be admitted that under these circumstances the American manufacturer of products competitive with the goods that have been excluded will capture a portion of their sales. Not all of the volume, however, which formerly went to foreign suppliers will accrue to the newly buttressed American competitor. One of the usual results of tariff is a rise in domestic prices, and insofar as increased prices are adverse to demand,

the tariff which excludes European goods will tend to raise the marginal level for the buyer and reduce the sales of the products affected.

It is, moreover, well known that the substitution of one product for another is not welcomed by many consumers. There are in America hundreds of thousands and possibly millions of people who have definite preferences for imported articles and are disinclined to accept domestic equivalents even though the quality be as good or a shade better. In spite of the price differential created by the tariff, the result in all cases except necessities will be a loss of sales for European products without an equivalent increased purchase of American goods by the American buyers; and as necessities represent only a small percentage of the products bought by American consumers, the margin between the reduction of imports and the increased purchase of American goods in the domestic market is likely to be considerable. On the other hand, the American producer, even if he does not gain the entire potential theoretically created by the exclusion of European goods, will undoubtedly be a substantial beneficiary; and his gain would perhaps be sufficient to justify a policy of prohibitive customs duties—if there did not exist interests which would be at least as much harmed as he was favored!

If America's tariff scaled down her purchases of foreign goods to three billion dollars, the necessity of the five hundred million dollar import balance would automatically slash down the exports of America to two and one-half billions. And looked at more closely, this means nothing less than a loss of more than two and one-half billions or nearly 50% of the present $5,250,000,000 foreign sales of America—a diminution equivalent to the complete paralysis of the automotive industry of America. The entire business of America would suffer to the extent of nearly three per cent. Prosperity would be converted into recession, and a recession would unquestionably be followed by depression—unless domestic buying could somehow make up the difference. To imagine a substitute for the American surplus of exports is to conjure up a new huge industry. To dream out a substitute for the two and one-half billions of export business lost is to see aviation or some other industry undergoing an expansion sufficiently great to make it the peer of the present autocrat of American business, the automobile.

It has often been said that America is economically self-sufficient, and it has been argued that a complete wall of exclusion could be built around her borders without injuring too greatly her national well-being. Perhaps there is validity to these contentions, but

to a practical observer it does not seem that America can build walls of exclusion about herself with any sense of security.

With an iron wall of economic isolation around the United States, five billions of exports and four billions of imports would be relegated to limbo. The loss of exports would be irreparable even if it were compensated in part by the replacement of some of the imports through increased domestic production. Many imports are of raw materials which are not producible in America and the elimination of which would be burdensome without offering any counterbalancing benefit to American business. Other imports are of products which cannot be efficiently supplied by America. Even if the walls had gates through which the necessities of America could slip, the disastrous results would be ameliorated only slightly—if at all. The disappearance of all or even a substantial part of America's export and import markets would leave a gaping void in industrial continuity, the bridging or filling of which would take superhuman effort, and yet promise no great measure of stability.

And this leads inevitably to a question that has perhaps already posed itself. If, as has been indicated, the American import figures control the destiny of the annual export totals, may it not be well to determine

whether the United States has more to gain by decreasing her present sales to foreign markets or by increasing them to a greater and greater figure?

Before probing into the possibilities of a large increase in American foreign trade, it should be understood that, upon the basis of the arithmetical inevitability of an import surplus because of America's creditor status, the maintenance of the present volume of five billions of exports would sooner or later require an import total of five and one-half billions. For America, in other words, to maintain her present level of sales to foreign markets, the country would have to swallow the bitter pill of an additional thirteen hundred million dollars' worth of imported goods.

The same problem obviously dogs the development of trade activity beyond the present figures of import and export. For America to possess ten billions of export trade, her imports would have to be ten and a half billions, and the nation would be deluged by over six billions of additional foreign goods with consequences adverse to industries producing for home consumption. Theoretically, indeed, there may be no such things as satiation of demand, but this assumes a system of ultra-stimulation of consumption and also unlimited purchasing power. The fact that at the same time the trade of America would enjoy the super-

activity of a ten billion dollar export program might not bring the necessary sedative to an intemperate condition within the country. It is still to be seen whether many industries now producing for the home market can develop sufficient adaptability to demand in Paris, London, Cairo, Johannesburg, and Sidney; and the added expense of exploiting these markets is practically certain to subtract large sums from profits and income.

At the same time, generally speaking, the world and its component parts gain materially as international trade waxes. The economic history of civilized nations —except for cataclysmic periods—has shown an almost unbroken line of increasing international trade, and no statistics or tables are required to prove the perfectly apparent fact that men are materially better off today than they were in the past centuries. Nor is it anything exceptional to consider increase in consumption as the most accurate gauge of material well-being that there is.

If the productiveness and purchasing power of people can be increased ten per cent, there is, in general, progress in the phenomenon; even though parallel to it there is an increase of twenty per cent in the same people's consumption. Of course, it is only proper to raise the question of how an increase of twenty per cent in consumption can be financed with

a ten per cent increase in production and purchasing power. The deferred payment plan in vogue in America was and is a temporary answer. In the long run, of course, consumption and purchasing power must go hand in hand even if there are times when they diverge and one seems to outstrip the other in the race for greater and greater records of accomplishment.

Finally, there remains the strictly arithmetical fact that a simultaneous increase of imports and exports would decrease the percentage of difference between them. If imports were four and one-half billion, and exports four, the excess of imports would be 12½%; while if imports rose to ten and one-half billions and exports to ten billions the former would exceed the latter by only 5%.

All things considered, then, it may be said that after a period of adjustment, which, moreover, would be gradual and not a sudden and unexpected revolution, American industry as a whole would be more advantageously situated if it could increase its sales, even if this increase required an even greater consumption of European goods by American consumers.

After all, the situation which America faces as a creditor nation is measured in terms of less than a billion dollars while the available markets for present and future exploitation can be calculated in terms of

untold billions of dollars. For this it is only necessary to project the picture of American consumption upon the immense canvas made available by economically backward and partially developed nations. Leaving out for the moment the problem of creating sufficient purchasing power in these areas, the adoption of standards by the people of Europe, Asia, Africa, and South America, even slightly approximating the standards of American consumers, would bring about an expansion of sales markets, not only for America but also for Europe, that beggars description and would make absurd all comparisons with the past.

The world is at the threshold of a new era of development. New ideas, new ideals are part of the aftermath of the great disturbance that has influenced Europe and the rest of the world for the past two decades. The transition is painful. So it was for labor during the crises of the industrial revolution when the Luddites avenged their misery upon the machines and the weavers rose up in arms. But just as present machine production, through its contribution to man's material well-being, can justify in a measure the storm and stress of the nineteenth century, so it is possible that the results of world trade in 1980 may justify the hardships and burdens imposed upon the business and financial interests of today. If the well-being of the

American nation as a whole, or the improvement of the life of the average man, were the only prospect, one would indeed have no reservations in giving enthusiastic support to a national program which unshackled world trade and permitted the untrammeled exchange of goods. What dampens somewhat one's enthusiasm, though it does not extinguish it entirely, is the knowledge of the difficulties that must be visited upon individuals and groups in the nation.

For labor as a whole the burden lies entirely in the assumed need of an increase in imports of thirteen hundred millions of dollars required by America's creditor status. Once that figure is balanced, what one branch of labor loses through increased imports will be made up by the enlarged demand for labor in those industries which are winning increased world markets. The process of readjustment may be difficult, and the mobility and guidance of unemployed labor will be prime requisites. However, the problem for labor as a whole would not be one of long-standing and widespread unemployment.

For capital, the situation is admittedly more difficult though, perhaps, involving less suffering. Fixed assets have much less fluidity than labor. And the damage done to investments in those properties which will be affected most directly by an increase in imports is

likely to be as irreparable as the disaster that comes to an industry that has been made obsolete by progress or been decreed socially undesirable. Unfortunately, however, the safeguarding of these industries implies either a stultification of world trade or a reformation of process and products, and the former course is unthinkable. It would perhaps be better if economic progress were wisely directed, but any attempt to set up obstacles before the Juggernaut of inevitable economic development is certain to be ruthlessly crushed.

It is, of course, altogether desirable that American industry should be subjected to a minimum of disaffection and rearrangement; and there is, within the international trade relationship of America, no doubt, sufficient leeway for some regulation, as long as the eventual consequence of America's credit status is not ignored.

Fortunately, America is showing in economic matters some signs of development away from the unorganized and scrambling democracy of its younger days. The importance of specialized knowledge in specialized fields is beginning to dawn upon the nation that has hitherto, more frequently than not, entrusted its economic welfare into the hands of politicians. Through the maze of false roads and blind alleys, some independent non-political agency must plot the

course to be followed by legislators and business men alike for the greatest good and least harm to the country. Perhaps a committee like that which Mr. Hoover called into being temporarily, made permanent and given more power, is the next rational step in America's adjustment to the international trade situation.

To direct into the safest channels the course of economic progress is to do what common sense demands. There are reasons why tariff especially should leave the realm of politics and become an instrument of national business. Tariff is the agency through which the international trade relationships of the world can be directed, and it is too vital to the strength and progress of a nation like the United States to be handled by those who would trade tit for tat or prefer opportunism today to opportunity tomorrow.

Nor, on the other hand, should European governmental agencies fail to understand the importance of regulating measures which would enable international trade to encompass the earth more smoothly and more effectively. Governmental agencies are, however, not the only factors of importance, nor are they generally the most important. It has been suggested already that world trade must draw its inspiration for greater growth from the extension and amplification of American consuming standards. The dawn of a new day of

world trade can come only with the dissemination of the American philosophy of consumption. America has learned the significance of consumption as the bedrock of national prosperity. Sometimes she forgets her text with unhappy results, but for ten years now she has prospered comparatively because she has been faithful to its principles and prompt in applying them. In Europe and elsewhere, this philosophy of consumption has few, if any, advocates, and méets with little understanding. If Europe is to set her face definitely in the direction of recovery and improved international status, and if the world is to fulfill its potentialities of trade, some of the inspiration, at least, must come from the foundation that a young nation has established. In arts, in letters, and in culture there may be little at present that the Old World can learn from the New. But in commerce and industry the past ten or fifteen years have witnessed America's coming of age. Today she offers an adult's experience to nations old in history but young in some essential elements of modern industry and trade. The capacity of increased production is a boon granted only by growing demand; and the ability of Europe to fulfill the present and future standards of trade and competition depends, at least in part, upon the application of the new philosophy of consumption.

XV

Europe's Problem

For a member of one nation to have the temerity to subject to critical analysis the methods and customs of a neighboring country may not be in the best of form. The almost inevitable lack of complete information is likely to result in a picture that is not accurate in perspective or correct in detail. America, however, seems to have welcomed hasty sketches of her manners and characteristics; and these, from the itinerant artist who collected his impressions on a flying visit in order to set them down at greater leisure in London, Berlin, or Paris. For years delegations have been taking quick trips to the States for the purpose of seeing American methods from a European point of view. Sometimes the results have been helpful; more often they have been misleading. The form has often been over-emphasized and the substance neglected. In a fleeting and partial glimpse of Europe from an American point of view there will be perhaps a modicum of reciprocity.

It happens, moreover, that if an American believes that his own country cannot maintain its role of insularity, he must regard the affairs of foreign nations as, in some measure, of concern to American life. The world in general and Europe in particular then become matters of significance to the economic processes of America, and under these circumstances there may be justification, from a purely American point of view for exploring the nooks and crannies of European economics and sociology. In any event, there is some sense of security in pursuing one's own business, even into other people's back yards.

If one sought from thinking Europeans a catalogue of the difficulties which Western Europe faces at the present time, the list would be long and onerous. Europe lacks raw materials; many of her supplies must be imported from across the seas, and those which are available within her borders are possessed mostly by a few of the countries and are therefore items of import for all the others. Food is either produced at home, for the most part under difficult conditions, or imported from the Americas. It may be well to repeat that Europe's land is poor by nature and has become almost sterile through constant and exhaustive cultivation. High-priced fertilizers and many hands of labor are required for each of her acres to produce its quota of

foodstuffs. Her greatest area is situated between degrees of latitude that correspond to those within which the district from Maine to Northern Labrador is located in North America; and the short visits of sun and warmth afford only a brief season of cultivation. On the Continent, there is no profusion of nature's bounty such as gives millions of square miles of fertile lands to a population one-third as large as hers. In America, only about twenty per cent of the workers are needed to produce foodstuffs for a huge exportable surplus over and above what is required for the satisfaction of domestic wants. In Europe from one-third to two-fifths of the population struggles to produce only a fraction of the bare domestic requirements for food.

It will also be well to recall that as a result of the War Europe has lost a substantial portion of her foreign markets. These are now counted largely among America's customers, and their demands help to maintain and fortify the American machinery of production that creates standardized products at prices lower than those attainable in the smaller factory units of Europe. At the same time, lack of financial strength prevents Europe from competing anew for these markets through the extension of credit terms as liberal as those offered by opulent America.

As to the home markets of Europe, they are relatively poverty-stricken. The hope of successful competition seems to lie in low wages, and low wages, as everybody knows, mean smaller purchasing power and reduced consumption. Because of the need of exporting—so much greater now that she has lost her foreign investments and capital, than before the War—it seems desirable to Europe to keep even her decreased home consumption at a minimum, in order that the surplus available for export may be as large as possible.

The small volume of sales in the domestic markets is made even more ineffective by the compartmentalization of Europe into twenty-eight separate sovereignties. Each nation has its tariff barriers, and the absence of free trade is inimical to the construction of huge industrial plants which would seek to serve hundreds of millions instead of hundreds of thousands.

This political difficulty confronting mass methods of production receives aid and comfort from the customary distaste of the good European for a standardized product. Individuality he holds to be a necessary quality in consumer's goods and he prides himself upon his defense of cultural values. The avalanche of American manufactures may do very well for an American public trained to consume products cast in

a single mold, but European culture must turn thumbs down upon anything quite so uniform and unindividual! Nor is the European worker said to relish what he considers the monotony imposed by the minute division of labor in mass production methods. There still flourishes in Europe loyalty to the spirit of the early guild; and formal obeisance is still paid to the artisanship so much a part of the journeyman tradition. Handicraft is not a forgotten custom and ideal, and handicraft obviously cannot survive the ruthless mechanization that limits a man's effort to the drilling of a few holes or the turning of a few screws. The transplanting of American production methods to Europe finds few zealous advocates among her business leaders. Unfortunately, these circumstances impose a heavy burden upon Europe's ability to compete with America for the rewards of world trade.

It is not a happy picture that an inventory of Europe's problems presents. Some of the difficulties mentioned have the ring of genuineness; others sound a trifle hollow; and still others do not quite bear the stamp of reality. But it would be incorrect to infer from this that, beyond making a more or less thorough and accurate diagnosis, Europe has left her troubles to work themselves out as best they may.

Some European suggestions for the solution of the

problem must have been evident from the very statement of it, and others may be easily inferred. Foremost in the minds of European economic leaders is the panacea of thrift. From the inspired quality of thrift will flow many national blessings. From it will result the accumulation of home-made capital in European banks. From thrift will come a reduction in living expenditures, making low wages acceptable, and therefore lower production costs more easily obtainable. In bringing about a reduction in domestic consumption, thrift will make possible the accumulation of a larger surplus for foreign export. And by the same token of lower consuming standards, parsimony should bring about smaller imports of goods for purely domestic use. And a reduction of imports, as is well known, is as essential for a debtor nation as the creation of a surplus of exports.

To the European, needless to say, there appears to be nothing inconsistent between his protests against American tariff regulations and his equally pronounced exhortation of his fellow-citizens to buy as few American goods and as much of the home production as possible. A railroad journey abroad reveals a bill-poster every half mile or so urging the purchase of this or that "home" product. However, such appeals to patriotism in consumption may be part of a necessary movement for decreased foreign imports.

From the advocacy of fewer imports, it is only a short step to emphasis upon exports, and exports have assumed a tremendous importance in the eyes of Europe. All measures that may increase its possibilities are accorded willing attention; and any action on the part of a foreign nation that is inimical or merely disadvantageous to the unshackled freedom of export begins to take on the appearance of a national calamity. Progress and rehabilitation of their material welfare are at present inextricably intertwined with exports in the minds of many Europeans.

There exists, of course, no magic which will place ore deposits in the heart of every European nation or turn poor sandy soil into rich black loam. The difficulty that confronts Europe because of a dearth of raw material and arable land will always exist, and will represent, at least for a few centuries, a difference in the natural inheritances of America and Europe. It should be remembered, however, that this inequality of resources was apparent long before 1919 or even 1900. Europe in her heyday, when she was seeking no solace for a dire condition and finding no needs unfilled, experienced the same lack of materials as now. It cannot therefore be that the absence of raw materials and a good climate are the sole causes of Europe's problems.

Moreover, the outlook is not quite as dark as Europe's natural disadvantages would seem to indicate. For some of her countries, raw materials and arable land exist in abundance in far-flung and extensive colonies. Natural products and materials like oil, copper, and grain, which were once almost monopolies of the United States, are being found or produced in the great undeveloped districts of Canada, Asia, and Africa. Nitrate, essential in peace and indispensable in time of war, was once to be found only in Chile. Today man's ingenuity makes the air we breathe the matrix of nitrates and a man-made machine the agency of extraction. The supply of oil, once dependent upon petroleum wells, now finds an equally valuable source in the coal fields of Germany where a secret method of extraction is being applied. Economic geography is being radically altered as man and his science penetrate further into the unsurveyed areas of the planet, on and under the surface of the earth, and in the atmosphere. Europe is lacking in neither explorers nor scientists, and onerous as the raw-material question is, they are making it less burdensome for the old continent as a result of their continual ventures into the unseen and the unknown.

At the same time the production of food confines so many toilers to its service that relatively few workers are left for industrial production. Surely it is presump-

tuous to suggest that a study of the consumption in calories of the average European might throw some light on the subject! It may be absurd to suggest that the use of labor for the production of grapes, wine, beer, and spirits withdraws too many hands from the manufacture of products which would be more legally exportable to the American market. But the question might be raised with all validity as to whether Europe is actually best fitted for the production of her own food requirements; even though no alteration in this age-old habit may be deemed advisable during the period of rehabilitation.

The production of food per dollar of investment, as well as per worker, cannot but be slight in comparison with the value created by the employment of the same funds and hands in industry. Before the War, Europe was a skillful converter of raw materials into finished goods, and surely her experience and equipment would justify a return to this program as soon as it is at all possible.

But it might as well be admitted at once that the most complex difficulty that faces Europe is just that which Europe is most inclined to consider as her hope and refuge—the combination of thrift and an export surplus. In fact, there is reason to believe that instead of finding in thrift the ally of a salable export surplus,

the observer may discover within its practice a force antagonistic to the development of foreign markets. The surface indications appear to justify the orthodox European attitude. What could be more simple than the arithmetic which proves that the smaller the sum for home consumption subtracted from national production, the greater will be the remainder for shipment abroad? The arithmetic is incontrovertible, but the premises are not quite tenable.

There are additional premises and arithmetical processes that suggest courses other than skimping on the part of an entire continent. If the total national production can, by some means, be greatly increased, is it not possible that with undiminished or even with increased domestic consumption the residual surplus for exports may still experience enlargement rather than diminution? And still more to the point, is there not a probability that increased domestic consumption may increase national production schedules to such a degree that there will result greater exportable surpluses, salable at considerably lower prices?

Even in the interests of European exports, then, it becomes advisable to examine the contributions that may be made by thrift and its antithesis—"extravagance"—to see which offers the better solution. As thrift or "extravagance" exerts its most direct influence

upon the home markets of a nation, it is to those that one must first look.

It seems inconceivable that home markets should not be regarded as of the very greatest importance to the economic life of an industrial country. In small colonies and principalities it may be that production is for the greater part absorbed by the export trade—particularly if the development of the domestic market has been retarded or if the tastes of its population are simple and easily satisfied. In countries to which the somewhat inconclusive adjective "civilized" applies, by far the major part of production is consumed by the people at home. It cannot very well be that the larger portion of the wealth produced by a people should be exported to other nations, for an exportable surplus greater than the domestic production consumed at home would in general require a productivity per worker many times his and his dependents' consuming power. Each productive worker would have to create a surplus sufficient to balance the consuming power of his fellow-countryman, including wife and children, whose tasks and occupations contribute nothing directly to the production of wealth, but who by virtue of their common humanity, are nonetheless consumers.

It therefore follows that the largest department of a nation's business is concerned with internal trade.

No matter how busy the ports and borders of a country may be, the bulk of her activity is carried on in the interior.

It is always the surplus production that is available for export; and that surplus is the result of the manufacturing methods of the nation—which in turn depend, to a great degree, upon the volume of trade that the domestic markets offer to home industries. To place the entire emphasis upon exports unrelated to domestic trade is to confuse one stimulus with the sum total of the many necessary for a country's economic progress. Fundamental to the creation of a competitively salable surplus is the bulk of national trade represented by the internal volume that is or can be available.

It seems, therefore, that it would not be unwise for Europe to give more attention to the markets she herself comprises. Ultimately Europe will learn to exploit Europe first, and make an expanded and prosperous domestic market her industrial and commercial ideal. Comparison with the United States may be odious and invidious, but America's example offers the best object lesson in the world for a Europe that would shape its policies to the greatest economic advantage. Europe need not necessarily pay America the compliment of sedulous imitation, although this is becoming more

often the case than is frequently supposed. But if Europeans are to study the problem empirically, America presents a whole epoch of experience upon which European business can sharpen its understanding, even if it finds that it has to discard or modify much that was good for America but is not for Europe. In any case, the radical principle of home-market cultivation is already planted here and there in Europe's soil, especially in England and Germany.

XVI

The Philosophy of Consumption in America

THE most surprising development in America's comparatively recent economic history is undoubtedly the degree to which domestic markets have been exploited, and the dependence of her prosperous condition upon this exploitation. Geographic advantages, excellent means of transportation and communication, the absence of tariff barriers among the component parts of a nation of one hundred and twenty millions of people—all, of course, have combined to make of America the world's greatest domestic market. But it must never be forgotten that industry itself deserves a large part of the credit for America's progress, because it was industry that expanded the sales possibilities of the United States to their present enviable extent.

Today, America's international export trade is far in excess of the export figures of any other country, but the bedrock of America's economic development must

still be recognized as the ninety odd billions of annual domestic trade, and upon it, likewise, must rest the business structure that has made it possible for American industry to triumph again and again in the competitive markets of the world in spite of her higher wage schedules.

To Europe as well as to America, to all the world, in fact, mass production is known to be the formula of success in American industry, and by now it is an axiom that mass production has no existence apart from a fairly well developed standardization of product and a huge sales volume. In the development of domestic sales markets by American business, sufficient volume was sought and obtained for the needs of mass production, and it is to domestic consumption that American industrial methods are beholden. The cycle can be conceived to have developed as follows: First mass production methods were born under the compulsion or the catalytic activities of a shortage of labor and of high wages for whatever labor was available; then the machine, becoming something of a Frankenstein, began to evince an exorbitant passion for production irrespective of consequences; following which the manufacturer was compelled to make an effort to dispose of the products, or in other words, to create a demand for them, in which he was aided by higher

wages. Then, greater demand, in turn, fed its feeder, and created wider possibilities for large-scale, economical production.

With mass production came the magic formula of the great American industrial combination—high wages and low costs. Low costs brought international competitive superiority and guaranteed the protection of home markets against foreign encroachment as much as or even more than the high protective tariff barrier. Low costs resulted in a reduction in the price of finished articles, and broadened the market materially by effecting a lowered level for the marginal buyer; and with these developments, high and rising wages and more continuous employment worked hand in glove, providing an increasingly larger group of people with an ever greater purchasing power.

Here, then, was a powerful illustration of the fact that economic stimulation comes from the urge to buy, though this urge may be more often artificially created than spontaneously present. The impetus to superproduction was not given to American industry merely by the presence of raw materials and a large population. Nor does the elimination of internal tariffs explain the situation entirely. True, this last factor gave American industry an unrestricted market of one hundred and twenty million consumers, but Germany had

some sixty millions and the British Isles about forty-five millions, and yet the United States could boast a domestic production many times the size of either nation.

It is difficult to determine whether mass production or intensive distribution methods played the greater role. Mass production methods are dependent upon huge sales; but it is equally true that the productive machinery creates a basis for sales through low prices and high wages. On the whole, however, the force of distribution seems the more indispensable of two almost equally important factors. Sales volume without corresponding production may fail to fulfill the greatest potentiality of high wages and low costs, but, assuming proper methods of production, sales volume means employment and the avoidance of dangerous inventories. Without the huge sales volume that results from high-pressure sales methods, large-scale production cannot live, and the lack of sales volume may even bring about serious economic depression.

Mass production, if it exceeds the reasonable consumption rate built on purchasing power and purchasing desire, inevitably creates inventories; and the liquidation of these involves substantial losses in profit, or a diminution in production and employment schedules, or both. Production methods alone cannot insure eco-

nomic prosperity or stability, as may be witnessed by the variation that takes place in business conditions during a period when production methods have suffered no adverse modification, but when sales have diminished for one or more of twenty other reasons. Build a huge demand, and supply is likely to follow closely, bringing profit to those concerned. Build, by the finest means possible, a supply, and unless a demand for it exists, there is assurance neither of sales results nor profit. Important as is mass production in American industrial economics, even more important is the development of industry's distributing organization and its underlying philosophy.

Nature, industry, and the social philosophy of the American government have contributed to the creation of what is really an astounding phenomenon. The matrix of the American political system was the eighteenth-century doctrines of the Rights of Man and equalitarianism. The Declaration of Independence was conceived and baptized in the stream of these principles, and, although there was an appreciable difference between its uncompromising idealism and the government that was ostensibly grounded upon it by the Hamiltons and Adamses, the course was thus laid out for American social history. Every now and then, fortunately, whenever the danger of stratification into

classes and castes threatened to become pronounced, a fresh democratic wave from the gradually receding West would send the would-be aristocrats of America scuttling. And when, by the end of the last century, the Pacific Coast had sent the last waves of democratic sentiment across the Rockies, American business, just ready for expansion, found itself located in a market ideally capable of cultivation. The market was cultivated, and in the process its democratic setting was still further confirmed and more widely established.

Perhaps one hundred years from now the present social cliques will have become crystallized into castes with sumptuary rights to possess objects not actively sought, even though implicitly desired, by those who remain in the lower strata. At the present time, however, every man still has a right and feels the right to want whatever his neighbor has, and every woman makes a strong effort to possess for herself and her children whatever her neighbor and her neighbor's family own. Purchasing power is obviously a limiting factor to the equality of possession. But once that power can be earned or borrowed, there is no social barrier through which American industry must break if it is to make its products acceptable to all members of all classes.

Some of the forces that industry has called into play in order to capitalize this desire seem merely temporary. Some may have already passed the apex of their effectiveness. But others have their strength still intact and seem destined to continue potent forever, although perhaps not to go on increasing at the same rate as in the past. If, of course, the American people were not by nature susceptible to persuasion, all the artful directing in the world and all the intensive sales efforts of master salesmen would have made little impression upon the consumer. Industry was undoubtedly fortunate in the particular social background and point of view it found in the American market. For the American business man, however, it was a matter of little if any interest that underlying his business success there happened to be a sociological basis; commerce does not generally deal with the philosophies of people. By trial and error the business man knows that the American people react favorably to certain types of stimuli and these stimuli he administers in copious doses.

Advertising became a necessary means of impressing the desirability of a product upon the mind of the consumer and of convincing every American peer of the importance of a certain commodity to his position of social equality with the best of his neighbors and acquaintances. Yearly, one and a half billion dollars are

burned up in the propaganda work of encouraging people to buy products ranging from utilities to luxuries and unclassifiable as necessary or unnecessary, except perhaps by our most iconoclastic economists.

Intensive sales methods have played a large part in the exploitation of American markets, making the interdependent elements of production and distribution gyrate in a more rapid circle than ever. Used primarily to create sales through direct effort, intensive sales methods have had unexpected results. The one-third of the workers of America who are engaged in distributing products to industry's consumers are not engaged in production, even though they represent perfectly able-bodied consumers. Their withdrawal from the ranks of production has tended to create a shortage of labor in some industries, and has therefore furnished a further stimulus to the mechanization of industry. Finally, with the industrial condition of fewer workers and more labor-saving devices, the productivity per individual has naturally risen, and this in turn has made it possible to maintain wages on a high level and to bring down costs to new figures. The sales organization has served, then, to forage fuel for the machine of mass production, to intensify the mechanization of production, and to swell the ranks of consumers.

It would be flattering to consider this multiple system of increasing sales effort as carefully predetermined by the economic laboratories of American industry, but there are no such laboratories, and the results and developments have undoubtedly been largely accidental. American business developed its sales effort merely because volume was one of its requirements, and the corollary advantages, such as the attainment of relatively high wage levels, were unforeseen. From the emphasis placed upon the high wages of America, one would be justified in believing that the purchasing power of the average adult American was a much higher figure than it is. Not only is the amount exaggerated in men's minds, but undoubtedly the cause of whatever favorable differential exists between America's wage schedules and Europe's is incorrectly indicated.

When the American business man is visiting Europe, he is likely to be only too glib in solving his host's business problems by the simple prescription of higher wages, forgetting the history of the phenomenon in his own country, and failing utterly to realize that if his advice were followed in the same rash spirit in which it is given, the consequence might be economic disaster. Back of high wages there are a multiplicity of elements, all of them essential. Europe possesses

only a few of them, and until she has them all, she will naturally regard the preachment of the wage principle as gratuitous and unwarranted.

In spite of these qualifications, the comparatively high wage level in America must be acknowledged as an important cog in the entire economic and even social machinery of the country. First of all, there is the frequently stressed role of high wages in purchasing power and therefore in the sales possibilities of the country. The spending power of the workers, as has been seen in earlier chapters, assumes in the consciousness of the employers the importance of being representative of the great mass of sales volume of the country. The workers are a sales market, and this in turn tends to give them a social status that they might not easily have achieved otherwise.

Labor today takes its position in that enviable seat and receives that careful consideration which were traditionally kept reserved for the best customer—whereas formerly labor was recognized only as the group that made costs high and negated or partly offset the benefits of production efficiencies. Organized labor had formerly as its chief instruments class consciousness and collective bargaining for an equitable division of the gross income of industry. These instruments, needless to say, are by no means obsolete. But there is also

no question that labor has received an armor of triple mail, for defense and offense, from the community of interests which has been recognized to exist between high wages and good business. Industry today faces the decision to cut wages with the practical certainty that the policy is out of step with the public attitude and may injure the national prosperity. The recent experience after the break in stock prices in November, 1929, is an excellent case in point. In many, if not most of the public pronouncements of American leaders, pleas were made for the avoidance of a reduction in wages; and subsequent to the greatest stock-market debacle in history, Ford announced an increase in wages.

It is practically certain that the old iron law of wages which John Stuart Mill popularized, already blown to pieces by the productive system of the United States, has been crushed into a fine powder by the demands of distribution as established in the economic consciousness of American economic leaders.

Not only have the economic barriers between capital and labor been riddled in a hundred places by the new consumer philosophy, but the possibility of a social caste system has been dealt in recent years a body blow far more telling than any sermon on democracy. American business has found it decidedly worth while

to encourage the consumer to attain the highest possible rungs on the ladder of consumption—an effort for which it is essential that there shall be no demarcation between classes in their rights to possess. It may be a purely material and non-spiritual basis for equality, but perhaps this is all the democratization that may be expected for a large body of people. The effects may be detected without extraordinary subtlety in any of the forty-eight states, and in any American city, town, or village. Perhaps, some are inclined to say, there is even too much of the good thing in view of the fact that millions upon millions are led to think about the same things in the same way, and that the circle of the free creative spirits may be becoming narrower and more starved for companionship as a result. The point is debatable.

But so long as America is a business nation, industrial demands are likely to be of significance in its life, and when business finds it advisable to stimulate, by means of propaganda and wages, the sense of equality founded either in fact or in theory by the fathers of the country, the results are naturally far-reaching.

Nor has the change in the attitude of capital toward labor been limited to wages alone. Hours of work become, under the requirements of distribution, some-

thing more than a time schedule dependent upon the health of men and women. It is in idle time that most goods are consumed, and by idle time is not meant a period of complete inactivity, but rather the hours not occupied in industrial work or sleep. While men and women labor in factory and shop they are engaged in adding to supply, but they are not contributing much to demand. A quickly snatched luncheon, and the usual wear and tear on second-best clothes represent the sum total of the daily consuming quota of the wage earner. It is after working hours that clothes are worn for show and style, and good form holds sway over consumers. When home and theater lights are bright and factories and offices are dark, when tea flows and cards offer diversion or an excuse for more personal conversation—then it is that real consumption takes place. Idle time, too, is necessary for the family to enjoy the car; and the radio is used "after hours."

Shorter working hours have as their corollary longer consuming hours. The usual working week in the United States is about forty-eight hours, and in many industries Saturday is a half day of work. It has been discovered that reduction of working time when accompanied by increased mechanization does not decrease output or increase costs. As fewer working hours

mean the existence of a more sensitive and more easily renewed sales market, labor has won for the shorter day an ardent advocate in the force of distribution. Basically, of course, it has been only sales and not social reforms that interested industry.

With a large population possessing purchasing power and the idle time necessary for its effective use, with a population that, moreover, has been educated to desire and to purchase products, America has endowed herself with a fertile field for exploitation. Utility has been supplanted as the prime basis of appeal; the much more fruitful instrument of desirability has taken the place of usefulness. The needs of a human being are either very simple or they are as varied as individual opinion makes them. The protein and calorie contents of a food are essentials to the proper functioning of the body, but, for the most part, a package of food builds its sales-brief almost entirely upon an appeal to appetite and desirability. Clothes require the utilitarian qualities of warmth and protection from the elements. But once sales are subject to the demands of desirability, clothes meeting only those elementary requirements can become quite useless to the potential purchaser, even though their utility remains the same. Style is one of the greatest weapons used by the ap-

peal to desirability, and style can destroy completely the value of possessions even while their utility remains unimpaired. The desirability of being up to date, repeatedly impressed upon the consumer, makes available a substantial portion of a sales market that would not otherwise be approachable by new products of the same character until years later.

To the advocates of thrift, of course, the philosophy of style and the speed of obsolescence in America must appear to be grave economic heresies and social abominations. To discard clothes, automobiles, home, office, and furniture simply because they are not as up-to-date as the offerings of the day may seem to be a kind of dangerous levity that must end in, if it is not already a conclusive sign of, moral disintegration. All the devils of pride and lust after earthly pleasures must seem to have entered into the American body politic.

The custom in America of buying new possessions to replace older ones that are still useful is, to be sure, an extravagant habit—if extravagance means the purchase of products which are not absolutely needed. But it is nevertheless true that the mass production machinery of America is built upon this extravagance. If some spell-binder could actually convert the American buying public to the principle of purchasing only

the utilities or merely basic wants, the new religion might have many spiritually enlightened brethren, but they would be poor consumers.

American industry has not stopped short with its stimulation of extravagance by means of words and pictures. Through the financing of consumers, it has advanced to millions of Americans the purchasing power that has enabled them to satisfy the spirit of extravagance so painstakingly awakened in them. Again, the motive was strictly economic and not in the slightest degree philanthropic. Business had soon enough discovered that even American wages did not create sufficient purchasing power, and, besides, that the consumer did not easily part with his painfully accumulated wealth. Industry was driven to anticipate the future earning power of the American consumer by allowing him to consume today goods purchased by mortgaging his tomorrow. It was easier to persuade people to spend future earning power than to part with savings which were already recorded in the little red pass-book of the savings bank. While savings accounts seem to be a part of oneself, there is something abstruse in the wealth that is to be one's own a month or a year hence. High-priced units like automobiles and furniture were utterly beyond the reach of many consumers, and a purchase price of several hundreds

of dollars made the object unattainable no matter how greatly desired. Possession of such articles was made possible only when the price was broken up into payments of from ten to fifty dollars per month, until completed.

For industry the deferred payment or consumer-financing plan brought returns, and it helped manufacturers to plan sounder business schedules, which in turn brought steady employment and the assurance of that very purchasing power that was the basis of installment buying.

Here too, of course, America was sinning against orthodoxy. Socially, the installment plan of payment was an extravagant device. It meant, beyond question, not only the purchase of products that were not essential to life nor even to physical well-being, but also profligacy—that is, spending beyond one's income. Thrift, the virtue of putting something by for rainy days, was the very antithesis of this unshackled extravagance, which called for the assumption of debts for the satisfaction of today's desires. Gone was the homely quality of prudence, while at the gates of the gay city stood a new god—with unsteady gait and vine-leaves in his hair.

To moralize about this apparition is to enter a tournament in which one individual opinion will set

its lance against another. It is possible, however, to allow all moral charges to pass by unchallenged, and still not to refuse recognition to the philosophy of American extravagance as one of the strongest links in the chain of American prosperity. And, in passing, it might be mentioned that it is this same quality of extravagance that determines the existence of an annual American tourist bill of over seven hundred millions of dollars, of which Europe is the prime beneficiary.

XVII

The Philosophy of Consumption in Europe

It is almost possible to experience the shudder with which more than one class of Europeans would hear American extravagance and Europe's economic problem discussed in a single breath. There would be something of the lamb lying down with the lion in this—an impossible association of opposites, repugnant to the ultra-orthodox European. Nevertheless, the implications have been laid in an impartial spirit and must be definitely established, as far as that is possible, with a view to discerning actual facts and trends as contrasted to what one would or would not desire to happen ideally. He would be an obtuse student indeed who stopped before the point of real importance.

To begin with, it cannot be admitted that Europe's export problem justifies the degree of emphasis that it seems to assume in the minds of her business men. Secondly, it cannot be allowed that the winning of exports for her industry or the regaining of her

place in world markets is as completely divorced from her problem of domestic markets as her written and spoken opinions would seem to indicate. Finally, it is highly questionable whether the business philosophy which Europe has long accepted as a basis of treatment of her home markets can materially assist her steps on the economic ladder. Eliminating the depreciation of European currency as too costly a device for competing successfully in the world's markets, Europe must recognize that it is imperative for her to match American industrial efficiency with equal productive skill. Europe's differential of labor cost is in this day of mechanization not a sufficient offset, and her lack of raw materials continues to place her at a disadvantage.

The failure of Europe to create an industrial machine that can match America's is not the result of a lack of engineering ability, nor is there really anything especially inhibitory in the characteristics of her people. Europeans who enter this country show no great difficulty of adaptation to mass production, so far as is known—at least no more so than Americans—although everywhere there undoubtedly exist persons who were made for other things. And Europe gives too many evidences of brilliant scientific and engineering ability to warrant the belief that she is wanting in the capacity for industrial management. It may take years for her

to work out the refinements of production methods and the minute specialization of labor so essential to the maximum effectiveness of mass production. But in general, all that will come, and even today where the volume of trade is sufficient and the product sufficiently standardized, one may find Europeans developing empirical refutations of the theory that there is a real contradiction between American industrial methods and European needs. One can see already at work in Europe assembly lines that move at the stroke of a clapper upon a bell, and rows of typical European men and women whose task is limited to boring holes or turning screws. An astounding example is one shoe factory in Czechoslovakia today that matches or exceeds in process and output the most intensive development of mass production methods in the United States.

The fundamental reason for Europe's present inability to make a more thoroughgoing application of mass production methods (or "rationalization," as it is frequently called in Europe) lies in the presence of only lean and limited consumer markets from which to draw the necessary sustenance. Foreign markets, even if intensively and successfully developed, will offer the required demand only in a few rare cases, and mass production in Europe, as in the United States,

must be built upon sales possibilities at home. Foreign sales, as we have seen, can represent at best only a small percentage of a nation's trade; and if a nation's business structure is to be built upon quantity production, the necessary material must come from within its borders.

The fundamental difference between Europe and the United States, from an industrial point of view, is just this inequality in domestic sales markets. It is due in part to the difference in the national resources of the two continents, in part to the present financial situation, in part also to the compartmentalization of a continent of three hundred millions of people into almost thirty sovereign, tariff-divided units. But even when a liberal and reasonable allowance has been made for these impediments, the major portion of the difference in the two markets results from a fundamental distinction in the consuming philosophies of the peoples of the Old World and of the United States.

Tradition in Europe is a force to reckon with. America's three centuries of history, a large part of which is of a republican character, has been too short a period for tradition to harden into an effective economic factor. Through six times as many centuries of political and social development under feudal and monarchical forms of government, class distinctions

have become crystallized in the European habits of living and thinking. Generally speaking, there is no common and natural acceptance of the American theory that all men are created equal, and inequality in social and economic status is commonly accepted. Here and there political upheavals have broken down the barriers between classes, and the newly created democracies of the War and post-War periods are likely to culminate in even greater democratization. But though political systems can be changed over night by a coup d'état, the social habits of a people, created through the generations and sanctified by associations, memories, and education, react slowly to new stimuli. Europe, to a large degree, is still characterized by distinct social stratification.

It is still traditional in Europe for sons to inherit and accept the occupations, privileges, and social limitations of their fathers. The nobility accepts its prerogatives with easy graciousness. The miner, textile worker, or mason regards his trade as his natural heritage from a parent who served his apprenticeship in the same craft a generation ago. There is no colorful and confusing whirlpool of social elements like that which exists in America, where any plumber's son accepts a college education as a birthright and harbors ambitions that frequently find fulfillment in the chair

of the important executive. Unquestionably, one reason for the relative social fluidity of America on the one hand and the immobility of Europe on the other lies in the fact that material prosperity, not rank, is still the chief sign of distinction in America. Family pretensions and heritage, in a nation one hundred and fifty years old, are possessed by too few individuals to serve as a basis for caste consciousness.

The class prerogatives of European society are not limited to titles and social privileges. Caste distinction may even be swept away officially, yet its seeds are implanted in individuals' habits, and they in turn determine the standards of consumption. Upper classes view with disfavor the expenditure of funds by the middle and lower classes for objects that do not accord conventionally or historically with the buying habits of the latter. Consumption is an index of social status, and the upper classes find no relish in any process that eliminates distinctions in possessions. Little wonder then that the standardization which the European discovers in America is not accepted as something greatly worthy of emulation. Aside from the threat to individuality, standardization smacks too much of equalitarianism. Is there not something unseemly in an extravagance so widespread that, in a nation of less than five million income-tax payers, there are more

than twenty million automobile owners? And is there not besides, danger to a proper sense of values and to stability of character in a system of consumer financing that encourages the creation of standards of consumption not only beyond class but even beyond income and wealth? Many European leaders look with much misgiving at American habits and devices which are to them redolent of Roman decadence.

Nor are the upper classes alone in their antipathy to mass extravagance. Thrift is a well developed and sanctified habit of the bourgeoisie and lower classes of Europe. The stocking bank of France that proved its resources so dramatically after the Franco-Prussian War of 1870 probably still retains its secret vitality. The universal custom of a *dot* for the marriageable daughter is an evidence, as well as a consequence, of the prevalence of the habit of frugality. The simplicity of the habits and wants of the European peasant and bourgeois has remained unchanged only because the promptings of desire have been limited by the canons of thrift and tradition.

Europeans speak of the standardization of America as though it represented an unyielding mold by means of which all Americans were cast into an identical pattern. They take pride in the belief that individuality and variation are much more common in

Europe. Ladies of social standing, they say, are unwilling to dress like women clerks or stenographers. The same attitude, however, also exists in America, except that here working girls are willing to dress like ladies of position—provided the latter are truly chic. And as there are a thousand workers to one of the elect, the demand created by the mass is an irresistible call to which it would be folly for industry not to respond.

But can it be fairly said that there is any greater actual standardization in America than there is in Europe? To the European traveler, all Americans look alike, whether they live near the Golden Gate on the Pacific Coast or in the vicinity of Cape Cod; while a single day's trip will take the visitor in Europe through a dozen provinces, each of which is distinct in habits, speech, and dress. That much is true, but it may be difficult to draw any conclusion from the phenomenon other than that the United States, which is only one nation, gives evidence of greater homogeneity than Europe, which is many nations.

The districting of Europe that has allowed the British Isles to exist for centuries as a collection of differentiated groups and has made it possible for a Basque people to exist as a race entirely apart from any other in the world, is the result of long-standing political

differences on the Continent. Then, too, the primitive means of communication prevalent in Europe during her centuries of crucial development made general social intercourse difficult; whereas American growth was the result of the development of the railroad, and America simply replanted portions of her eastern population further west.

In Europe, each nation is a composite of a large number of smaller groups, each of which has its customs, its manners, its dress. But within these groups there is certainly no great evidence of individuality; habits are almost completely standardized, and clothes seem to vary only on the basis of age and sex. Not only do all women in a particular district of Holland dress alike, but it is practically certain that they dress much like all women who have lived and died in that same district for generations. To the traveler speeding through Europe with the questionable thoroughness of a tourist, the variety of groups may seem kaleidoscopic, but in reality the standardization of each group is not only complete but static.

To the American in Europe who spends some time within the limits of a small national group there comes inevitably the feeling that all of its members look alike; he is likely to find here more actual uniformity than he has ever met with in his own "stand-

ardized" country. He may be merely blanketing under one impression a group whose points of similarity outweigh the individual elements of dissimilarity. But he is probably doing no more in this respect than the European traveler does in America.

Then too, it might be interesting to observe that there are no products in the world that are more standardized than the stylish clothes of men and women. A style may be a fleeting thing, living only a few years or a brief winter or summer season before it goes into the dusty files until the cycle of fashion should make it chic again. But while a style is in vogue its dictates are autocratic and hardly to be disobeyed by the woman of fashion or the man of the world. The source of standardized style for women's dress is Paris, and London rules supreme as the arbiter of men's vogues. It is in Europe that the products are created which impose a standardized code of dress not upon America alone, but upon all of Western civilization.

And as a matter of fact there need not be any inevitable standardization in the satisfaction of consumer demand merely because the articles are supplied by a group of industries large in size and relatively uniform in product. The possible permutations and combinations between output and consumption are myriad. If a thousand factories produce ten products each for

the satisfaction of one hundred millions of people, each of whom may possess as many as one hundred items, the possibility of obtaining standardization is remote. A consumer may have one object in the home like that of her neighbor. Or she may wear a pair of shoes, or a hat, or a dress just like that of some friend. But before the coincidence of one identical object can be converted into the uniformity of a whole house or even a whole room, or an entire costume, the laws of chance will have to wait many months; and by then new products will have supplanted the old.

Women, who constitute the major American consumer market, are especially paradoxical in their attitude toward style. They seek admission into the prevailing fashion and find discomfort in any sense of exclusion which their home or costume forces upon them. But they are equally averse to discovering their personal appearance or their home duplicated elsewhere within their circle. The wearing of an identical or even similar gown may be cause for action against the "exclusive" shop from which the purchase was made. Retailers know this. Though they purchase large quantities of similar objects from factories supplying the whole country, they emphasize individuality in their one-of-a-kind policy, trusting to the laws of arithmetical combination and the size of the American

consuming market to protect them. The fact that few complaints come to them is not so much a tribute to their own skill as an illustration of the unlikelihood of much coincidence in a nation of one hundred and twenty millions of people dispersed over millions of square miles.

Even in automobiles, the very symbol of standardization, the possibilities of variation in make, model, color, and upholstery are so many that an absolutely identical car in the hands of friends or neighbors is actually rare in America. And, as to the types of cars, certainly one is as conscious of the prevalence of the Citroen on the streets of Paris or the Morris or Austin in London as one is of the Ford, Chevrolet, or Buick in America. At the same time, too, would an individual with means hesitate to buy a Rolls-Royce because he might chance to pass one on the road? Is there not, on the contrary, some stimulus to the purchase of a Rolls-Royce in the very fact that enough examples are seen on the thoroughfares to ensure a general knowledge of the social and economic status of the owner?

There are factors other than the fallacious fear of standardization that are adverse to the creation of a new consumer philosophy in Europe. In European in-

dustry, custom has created very long working hours. The actual time of labor and the intensity of work probably are no greater than those endured by the American workman, but the leisure time made available is undoubtedly of shorter duration. European schedules of hours start earlier and end later than those of the American shop and factory. The short lunch hour of the United States is in contrast to a meal-time at least twice as long in Europe. This may allow time for the consumption of substantial quantities of food and for the siesta which the impressive size of the meal frequently makes imperative. But the European schedule of hours precludes, for the most part, the exercise of consuming habits with regard to products other than food, and the long evening and week-end of leisure that is so conducive to increased demand.

It must be recognized, however, that even if the European schedule of hours were so changed as to create more idle or leisure time, there would still be no assurance of stimulated demand, sales, and production. In America, leisure time does not mean idle time; her people require all kinds of appurtenances with which to keep themselves busy in the hours of supposed idleness. Cars, radios, gramophones, moving pictures, card parties, dances are necessary requirements of evenings and week-ends. It may be said, of course,

that it is only an extremely high-strung nation that would make use of such stimulants and sedatives. But while this opinion is a matter for discussion, there can be no two views as to the importance of the American's leisure-time activities in keeping the machines and hands of American industry steadily employed. Leisure time among the working class and bourgeoisie of Europe partakes much more truly of the character of idleness. A pipe in the cool of the evening, some pottering in a small garden, a walk through the streets or fields, a visit to an inn, café, or beer garden are pleasures of frugality. An English poet praised them as the simple pleasures of the poor, but there is little nourishment in them for the satisfaction of industry's natural appetite.

Thrift undoubtedly conserves the capital and wealth of a nation, but thrift does not build industry, and it is almost axiomatic that a nation whose population does not consume in leisure time must have less to produce in its hours of labor. It may be sound to conserve natural resources—although nowadays science with its inventiveness makes the necessity less urgent—but to limit national consumption is to keep production on a bread-and-water diet. There is a decided similarity between the present thrift policy of Europe and the fallacious theory which a century and a half

ago prompted her to hinder the exportation of specie as a way of safeguarding national prosperity.

There are already many Europeans who find themselves in disagreement with the policy of conservation. These heretics of European industry believe in the sales expansion of the Continent's business, to the extent of encouraging the amplification of consuming habits. But unfortunately they are mostly the young men of industry, and here too, tradition interferes with the prevalence of the new point of view. While in America young men take their places in the councils of industry, sometimes perhaps before they are ready for the responsibility, in Europe they remain technically immature long after they have attained biological adulthood. In the councils of business, conservative old age takes precedence over exuberant and enterprising youth; and while old age may moderate recklessness, it is also inclined to persist too much in habits, traditions, and conventions.

And yet, even if the whole philosophy of consumption were to undergo an over-night change and the European masses became suddenly possessed of a desire for profligate spending, there would still be no assurance of a domestic market in Europe such as would make her industries hum with activity. To create a desire for purchases is to have crossed the

sea halfway over; the rest of the voyage is ensured only if the consumer has adequate purchasing power —and here too Europe sails against the wind.

A consumer, whom both the Great War and its aftermath of bankruptcy and industrial stagnation have reduced to penury, may listen attentively to the siren song of greater consumption without any practical effect arising from his interest. His savings have suffered from failure to experience the normal accretions that result from continuity of employment and industry; and the capital assets he owned before the war underwent serious depreciation during the inflation of national currencies. But even if an individual's wealth and savings in marks or francs total the same amount as in 1914, the purchasing power of principal and interest is only a fraction of its former value. European prices are substantially above their pre-War levels, and fixed incomes can purchase only a part of what they would have procured before the War. Moreover, regardless of the cause, wages are comparatively low in Europe, nor is employment continuous. All told, the purchasing power of the people is decidedly smaller than it was.

Nevertheless, there is definite evidence of the existence of factors which not only favor but strongly suggest the beginnings of a new European philosophy

of consumption. There are in many localities and in many industries signs of the crumbling of traditionalism. Perhaps crumbling is too strong a term with which to describe the evolutionary processes at work, but at any rate, in spite of frequent protests and occasional set-backs, there is well under way in the Old World a substantial modernization of method and point of view. The example that the United States has furnished, in spite of its many objectionable features in the opinion of the genuine European, is a seed for which there is a fertile soil. There has been no lack of interest on Europe's part in American industrial methods; for the past ten years they have been subjected to very careful scrutiny, analysis, and interpretation. Pilgrims to the shrines of American production have returned with new inspiration and new ideas, and from these have come, and will no doubt continue to come, significant industrial modifications that smack not a little of America and involve machines whose labels speak eloquently of American birthplaces.

It is certain, of course, that whatever lowering of the walls of tradition has taken place has not been a deliberate or even entirely conscious process of reorganization on Europe's part, but simply a response to the presence of financial and trade exigencies for

which the old mechanisms of business have been inadequate and unsuitable.

The greatest catalytic agent has been the much-maligned United States. The supremacy of the big cousin across the ocean has become a goal towards which to strain. Imitation of American ways or of what are supposed to be American ways has affected such things as Europe's music and Europe's dancing, and gypsy bands that once had on their repertoire rich and poignant folk-songs now try to establish their modernity by striking up a Broadway tune. Yankee manners are affected by both men and women, and the passion for films from Hollywood goes far towards proving that most men are alike, whether their country's past shows a Beethoven and a Goethe or a Victor Herbert and a Cotton Mather. Nor is there any question but that the European business man is fired to emulation by the success of American business leaders, just as the European worker is interested in the wages of his fellow-proletarians across the Atlantic. But most telling of all has been the requirement of successful competition at home and abroad with the American industrial colossus. It is only natural that in such one-sided rivalry, the less effective antagonist should examine carefully the instruments and weapons of the stronger with a view towards possible adoption. And

this is exactly what has been going on for some time; so that the frequent and forceful disavowals of the utility of American production methods for Europe have been paralleled by developments along just these lines in Germany, France, and the rest of the Continent.

Even traditionalism in consumption has undergone substantial modifications during the past decade. During the post-War period of chaotic inflation, currency lost its value so rapidly that its owners rushed headlong to shops to convert paper money into material goods. Delay meant serious loss in purchasing power, whereas physical objects did furnish sustenance, shelter, or comfort. With the ancient inviolable faith in the currency of the realm seriously damaged, saving not only lost its pre-War dignity, but actually became ill-advised: spending money was not merely a matter of desire but of protection. Stability has not fully regained its old-time assurances. The new habit is still alive, and the taste for spending has not lost its tang.

The War, moreover, brought with it a strong wave of democratic sentiment. Warfare itself was leveling in its effect; and afterwards there came the substitution of democratic forms of government for many of the old monarchies, and in general the modification of aristocratic prerogatives and privileges. By no means

all of the political changes of the past dozen years have been accompanied by an alteration in the manners, habits, and outlook of the people. But there is no doubt as to the relaxation of rigid social barriers in Europe, and this cannot but have an economic counterpart in the development of open fields for the distribution of large quantities of products to the largest possible number of buyers.

And, increasingly, these buyers are not in the mood of yesteryear. The spirit of the War and the inflations have left traces. The old landmarks of morality and propriety have in many cases been removed. Life is faster and the love of living greater. The nervous system of a war generation is more highly strung. A more cynical and sophisticated generation prevails, and it lives in the present, for it knows that tomorrow it dies. The futility of ideals in the face of material forces has for many been demonstrated beyond a shadow of doubt by the cataclysm of 1914 that followed the Hague Conferences, and by the Versailles pact that came in the rear of the Wilsonian gospel of mutual forgiveness. There are more stimulants than sedatives needed for tingling nerves. Increased night life, dancing, the weird notes of jazz music are symbolical of a frame of mind that is less likely to be content with the quiet amenities of the hearth and the rugged sim-

plicities of a Spartan. The hunt for novelty is beginning to sound its horn in the cities and towns, and it may not be long before the new goddess of the chase—obsolescence—is widely followed. Modern art, modern furniture, and modern architecture are the craze, and those restaurants draw best which offer not necessarily the best food, but the most recently hatched music or the most novel decorations. The influence of novelty and speed of life in most European capitals must be patent to any foreign observer, although even this phenomenon receives scant general recognition from the die-hard conservative in business. It is not, of course, contended that culturally and morally these changes represent an indubitable improvement. A fact is merely recorded and its influence may be dispassionately gauged.

It will be interesting, also, to observe the effect of the newly established American plants in Europe. It is practically certain that the expatriated institutions will apply to their European enterprises the principles and methods they found to be successful at home. These may undergo considerable modification to meet local requirements, but in essentials they will constitute foci of American industrial and distribution methods within Europe's borders. It is inconceivable that European industries will not be infected with

the American virus either through the force of a novel example and friendly contact with the Yankee manager or as a result of competition.

In distribution, it is not difficult to foresee the increased use of advertising and incisive selling methods; in production, intensification of methods as fast as sales results make it feasible; and finally the adoption of at least part of the American program of higher wages. Competition for labor may also help to enjoin upon European business leaders the example set by the American expatriates. (This indeed is an additional reason for sentiment against American plants in Europe.) Nor is it at all unlikely that in the effort to sell cars and music boxes in Europe, the American system of consumer financing will be transplanted; and once this happens, European business may be compelled willy-nilly to adopt the same device, at least in the sale of competitive articles.

It is difficult to understand the antipathy which many people have to the use of the deferred payment plan, unless of course an individual's own business interest is adversely affected by the operation of the plan. The social arguments against consumer financing can at best only match the arguments in its favor, and then only with some stretching of the imagination. As to the credit problem involved, it is no more serious

than that to be found in the financing of industry and commerce, and no more dangerous. Of the industrial benefits of the plan when carried out with moderation, there can be no two opinions.

If some all-powerful personage in one of the countries of Europe were convinced that the installment plan offered substantial advantages to his country, the experiment which he might undertake would be of tremendous interest. If instead of making it easy for industry to obtain a credit of fifty millions of dollars with which to build plant capacity and purchase raw materials, he split the fund into two parts, he might make a real economic contribution. For industry he might hold twenty-five millions in reserve, to be drawn as needed. The other twenty-five millions he might advance to the consumers of his country on reasonable terms, to be spent specifically for goods produced within the borders of the nation. If, as would seem more usual, a loan of the entire fifty millions were made to industry, there would be no assurance that the enlarged factories would be kept busy. The existence of productive capacity, inventory, and a schedule of manufacturing would by no means ensure the sale of the product and the profitable employment of factory facilities. But if the consumers could be persuaded to use the twenty-five millions of dollars advanced as credit

to them for the purchase of products of domestic manufacture, there would be an assurance of that amount of sales for the producing units. Wages would be earned and profits made in the process, so that it is practically certain that the credits for both plants and consumers would be repaid.

This is exactly what has happened in America without the intervention of a government, and there appears to be no fundamental reason why the economics of consumer financing should be radically different in Europe. There may be some important differences between the peoples of Europe and America, and there may be essential distinctions between the mores of the two continents, but they appear to be largely matters of time. Time, development, and modification to fit the specific characteristics of different nations may make the American method applicable anywhere in Western Europe. If the gap between Europe and America in this respect is never bridged, the cause, it may be said with confidence, will be social and not economic. But is it likely that Europe will be able to resist for long what seem to be the demands of economic polity?

Nevertheless, in this development, too, a barrier of fact may have to be surmounted. Consumer financing requires something more than social acceptance. Capi-

tal in large amounts is necessary if the sale of products is to be financed on terms extending up to one year; and at present the application of installment selling in Europe suffers not only from an unfavorable attitude, but also from the dearth of capital. The problem of capital is, however, a general one that applies to industrial as well as consumer financing, and one can foresee the availability of credit for industry. Europe is producing capital at a moderate rate, and improving industrial conditions within her borders will no doubt make investment opportunities attractive to foreign countries. And indeed, the point should have been made already that signs of a prosperous condition in Europe will be one of the most infallible allurements to American investors.

Until capital is available for industry, there can of course be no diversion of a part of it from the channels of production to those of distribution. But even the existence of capital in large amounts is no assurance that the consumer will receive any part of the resulting credit facilities. A changed point of view on the part of European business men is an essential requirement for the financing of consumers' purchases.

Only when Europe has established at least the foundation of a new philosophy of consumption will the principle of high wages make a valid and effective ap-

peal for acceptance; and only when Europe has been taught to consume will mass production be able to display its proper alchemy in lowering manufacturing costs. Until then, there is likely to be no intensification of industrial methods and no amplification of sales opportunities such as would provide the ideal triangle of economic development—high wages, low costs, and huge sales volume. A standardized process depends upon high productivity, and labor must be willing to coöperate in the organization of efficient production. If it does so and if capital recognizes the great hordes of labor as consumers, high wages will be established firmly upon the principle that they increase sales and supply the material essential to low unit-cost manufacturing; and this in turn may abate some of the social unrest and political instability with which Europe seethes. It is a well-known fact that, although European workers are far more thoroughly and cohesively organized, their conditions of wages and hours do not compare favorably at all with the advantages that their less organized American brethren have been enjoying.

But, above all, it must be realized that a new economic philosophy, development of domestic markets, high wages, and low unit costs are four equally essential elements, each of which cannot exist without all the others.

Although consumption and production, high wages and low costs, are the arcs of a circle and although no one of them can be excluded if the ring is to remain unbroken, consumption or its psychological basis seems to be the most important. Desire is in its essence universal and as old as mankind itself. Few are the men whose appetite for better standards of living and material well-being have been fully sated. A sprinkling of naturally simple palates there is of course, but the vast majority of mankind is only too easily amenable to a fancy dish, a beautiful object, or a rich liqueur. Men have in common the characteristic of desire, and those who build upon the cultivation of desire are likely to choose an economic foundation of firm rock. If, after what has been said, someone should call economics a sinful science he would be perfectly welcome to the adjective provided he did admit that it was, after a fashion, a science.

From the development of the internal markets of Europe may come revolutionary changes in the economic, political, and social system. If, as one of the consequences, Europe becomes a larger market for American products, the products of Europe seeking American markets will gain a larger and larger force of advocates. From the improvement of the European methods of advertising for tourists may come increased

migrations of men and dollars from America, and this would bring recruits of no slight value to Europe's balance of trade. Signs of a more business-like attitude towards tourist trade are already beginning to become manifest. English, German, or French posters of attractive or historically memorable locations are already beginning to appear in American public libraries. Those erstwhile deadly enemies, the Irish Free State and Ulster, have agreed to advertise each other, to give their respective support to semi-official tourist stimulation societies, and to facilitate matters for travelers by means of light customs examinations. In England there are signs of efforts to provide better accommodations—and this in spite of the sneers of the press that greeted American suggestions to this effect. Germany is installing autobus systems from Heidelberg and Munich to Oberammergau, the seat of the famous Passion Play; and Belgium very recently wisely decided for a large-scale international exhibition on the occasion of the centenary of her independence.

Above all, with the newer consumption philosophy for guidance, there is no doubt that Europe would be in a better position to compete effectively with her major, if not sole, competitor for the markets of the world. Her problem of raw material will not be solved, but it may be lightened.

It was in part Europe's concern for her export possibilities that prompted this discussion of Europe's home market, and it must be obvious by now that the low unit-cost necessary to meet America on terms of competitive equality can only result from large-scale production, the impetus for which must come from a large and established demand at home. Once this demand is a fact, Europe may have less concern over American tariffs and may proceed simultaneously with America to develop the huge and relatively untouched fields in the markets of the world. Only it must be remembered that this next step is secondary to a more immediate problem which must first be completely mastered. If Europe has other methods of mastery at her disposal quite as effective as those that seem to suggest themselves most logically here, it is to be hoped that they will be forthcoming soon.

In imagination, the economic road leads toward noteworthy goals; the potentialities are great and are at the same time within the realm of a not too distant realization. But a new philosophy of consumption may also bring about changes other than primarily economic. Social, political, and quasi-political modifications of significance are likely to come in the train of the new point of view. The requirements of large-scale produc-

tion would probably stimulate some kind of Pan-European integration, like a Federated Europe or a Customs Union, and with industrial alliances a fact, there may be a far greater possibility of political amity and unity.

The principle of equality or at least relative equality in consumption is inherent in the new philosophy, and the extension of the sentiment of equality to matters other than consumption may easily follow. In modern society, the relationship between economic, social, and political life is closely knit. One can expect also that as a consequence of broadening and shifting demand will come a further slackening of the reins of conservatism, inertness, and traditionalism. Attendant upon the new consumer philosophy, when highly developed, is rapidity of change, which by its very nature is antagonistic to the static adherence to many of the precepts of yesteryear.

There are also losses to be expected from any force that might injure even though it might not destroy the poise and easy grace of an old and cultured Europe. Such an eventuality need not, however, be visualized in the darkest colors possible. There is a difference between the modification of a tradition that refuses to accept the changes forced upon it by time and circumstances and the destruction of its intrinsic beauty and

order. It is not impossible that, after the necessarily painful period of transition, the life of the spirit in Europe may flourish more vitally and variously when she has effected the necessary adjustments to the demands of economic reality.

With the prophets of despair, one may foresee a people suffering from more intense activity and nervous instability without necessarily considering this the worst of evils. There is a still greater one—the rigor mortis of an enfeebled and enervated culture or tradition. Nervous tension is not necessarily adverse to creativeness and cultural development. The best work of man is often the product of nerves and instability, and all of the valuable works of man on this planet are, as the medieval theologians so rightly said, conceived in the sins of desire and pride and executed in passion. Ultimately, the question becomes metaphysical, and calls for a definition of the "good life" which is neither economics nor sociology. But it may be mentioned that the wisest of mankind have differed on how we are to live our short day of light and warmth.

At the same time there is the fear, often expressed, that man's happiness and peace of mind may become too dependent upon the possession of material things; and there may be some concern about the visitation of

rapid transitions and changes upon a culture that savors sweetly only because its essence trickles down drop by drop from between the rocks of ages. But opposite expectations seem at least equally valid. For surely, if as a result of a new philosophy of consumption there comes an era of greater European prosperity, the benefits of that prosperity need not be limited to a fuller pig trough of consumption. Even in America, with its youth and poorer cultural heritage, economic progress is bringing something more than material well-being. In America, the past two decades, it is safe to say, have been fruitful of better novels, poems, and architecture than practically any other twenty years in the history of the nation. The recent industrial development of the South, to take a still more specific example, has been paralleled by a marked cultural advance, and year by year the roll-call of talented Southern poets and novelists grows longer and more promising. With men better fed and clothed, with people engaged fewer hours in the tasks of production, bread alone should assume less importance in the range of human affairs for a majority of the people.

Perhaps those individuals who greatly long for the advent may again see Michelangelos, Rembrandts, and Da Vincis in Europe; and this hope should not be taken from them because salesmen will be knocking

at private dwellings, advertisements will be flaring in the night, and airplanes will be throwing down circulars. The Florence of Dante was probably a worse bedlam. Culture, in order to live, must not remain satisfied with being duly appreciative of what past masters have given to the ages; culture demands of us something more than careful protection of the treasures of two or three hundred years ago.

There are teachers and artists who clamor for a rebirth of art; and perhaps the patronage will come from a new and democratic leisure class and the encouragement from a large group of those who are fed well enough and are sufficiently free from material wants to enjoy and applaud the work of the gifted. The new art would of course be born of the age as a tree grows out of the ground. And how are we to dictate the subject for creative genius by ruling out material civilization as a possibility? Every great literary or art movement has crystallized its civilization, and if a new renaissance develops, it will be born out of the materialistic world of capital or labor or both and not out of Arcady, the Vale of Tempe, or the musty cornershop of a petty bourgeois.

But whether or not this comfort for the heart of the European lover of culture is adequate or satisfactory, the certainty of the economic development before

which Europe stands is well established, and its purely economic effects resolve themselves into a picture of trade all over the world that exceeds all previous records or reasonable prognostications.

XVIII

America Looks Abroad

It is a long way from the Latin quarter of Paris to the prosaic activity of business on the corners of Main or Wall Streets. Foreign trade has apparently taken us far afield from the purely domestic concerns of the United States.

Nevertheless, the whole of the picture that has been drawn is American in cast and coloring. The whole story may be briefly reviewed from a purely American point of view to discover the correlation between European internal developments and America's problems of the present and the future.

America's foreign trade was seen to be the door to a new epoch of industrial progress. Not only has foreign trade been an important contributing factor to American prosperity during the decade 1920-1930, but for fifty-five years the attention of Americans has been focused on exports as one index of the success of American industry. For more than half a century a surplus of exports has meant a "favorable" balance of

trade; and a favorable balance of trade has seemed to be the *sine qua non* of commercial prosperity.

In order to understand America's position in foreign trade both in the past and the future, it was essential to know something of the economic history of the country. And as it happens that the pages of the earlier history of the United States are to be found in the history of Europe, even a casual study of the evolution of American trade had to begin with eighteenth-century Europe.

Within Europe the industrial revolution created huge increases in the productivity of mankind and in the accumulation of capital. Machinery so augmented the output of industry that it became essential for business to seek broader markets for its products. The virgin colonies of America offered excellent markets for goods and splendid opportunities for investment. American industries and railroads were developed with European capital; many of the needs of the people were satisfied by European goods. Tools, machinery, tea, and textiles were brought from European sources and were paid for by America with capital borrowed from European investors.

America grew to industrial power in the process. A point was in time reached when European commodities were no longer greatly needed; American products

were produced in quantities sufficient not only for domestic consumption but also for export.

Loans and interest obligations, however, continued; and the annual debt owed by America for borrowed capital was substantially increased by additional obligations for freight and insurance charges, tourist expenditures, and remittances to the relatives left abroad by American immigrants.

America had a large obligation to pay for such services as well as for interest; and in order to discharge the total debt, it became necessary for her to export goods in greater amounts than she imported. It was the necessity of balancing this adverse surplus of invisible items, and not native genius, that automatically created the export surplus that existed from 1874 up to the World War. But this natural consequence of the debtor status of the United States—a "favorable" balance of trade—became in the eyes of America her political totem-pole of national industrial success.

Then came the War. Into a short critical period of four years were concentrated events that would otherwise have spread over decades. Evolutionary processes at work attained a revolutionary climax. Europe, in order to finance her war needs, after having first sold back practically all of her American holdings, began to borrow billions from the United States. The War

and its aftermath effected a complete reversal of the historical positions of the two continents. Europe was converted into a group of debtor nations, and the United States became a colossal creditor.

It was to be expected that after this change in status America would have an import balance and Europe an export surplus. Nevertheless, Europe continued to import a surplus of goods, and America retained her greatly cherished "favorable balance of trade."

The apparently paradoxical co-existence of a favorable trade balance and a creditor status for America is in fact a re-enactment of a condition that had existed approximately a hundred years before; only that the roles have been reversed. A hundred years ago, it had been America, not Europe, that had an import balance while still a debtor nation. The situation is now as unstable and transitional as it was then. But America has temporarily staved off the inevitable return to normal stability by a simple, though of course not intentional, device. From 1920 to 1930 she has been able to sell a surplus of commodities in the markets of the world only because she has been able and willing to finance the purchasers. The annual surplus of exports during the decade of 1920-1930 was made possible primarily by the annual net shipment of an almost equivalent amount of capital abroad.

Although this formula explains the character of the past decade's "favorable balance," it unfortunately carries with it no assurance of permanence. A day must come when the annual requirements of interest payments to America will exceed the shipment of new capital from the United States. On that day America will begin to face a surplus of imports.

The very mention of a surplus of imports smacks of heresy in a nation bred on the assumed benefits of a high tariff. Protectionism is deeply rooted in American history, and the major economic divisions of the nation—capital, labor and the consumer—are all allied by many ties to the policy of protection. Any signs of a large increase in imports would therefore only be a signal for the forces of protection to gather for battle on the steps of the Capitol.

However, even though America is greatly averse to an import surplus, Europe cannot continue to buy from America and at the same time pay her interest obligations unless she can in turn sell her own goods. America's foreign economic policy may be determined by America alone, but if America shuts her doors to foreign goods at the critical time when a surplus of exports on Europe's part is an arithmetical requirement, Europe may put into force instruments that will place severe penalties upon the export trade of the

United States. Favored-nations clauses in Europe's tariffs, whereby America is disfavored, are a real possibility, and proposals for a unification of Europe into a federated group of states or into a customs union contain the germs of economic disturbance to the United States.

A tariff war such as might result would spell defeat for both sides. A substantial decline in exports would leave a conspicuous gap in American industry. Already the threat of unfavorable European tariff action has accelerated the establishment of American plants abroad, and only definite hardships can come to America from a wholesale expatriation of her capital. On the other hand, an embargo on goods and loans to Europe on America's part, would simply throttle European industrial enterprise, and possibly undermine whatever social and political stability the Old World possesses. This is the international dilemma that America must see when it looks across the Atlantic.

It would be better, then, if a tariff war could be entirely avoided; and it would be best if at the same time there would have to be no surrender of America's historic favorable balance of trade.

Certain possible solutions suggest themselves, and others have been proposed by the handful of men who have shown any interest in the problem. The sug-

gestions fall, generally, into two classes—financial and non-financial. The most important financial possibility of avoiding conflict lies in the continuation of exports of capital. This, upon examination, offers no great encouragement; at best it can only postpone and not cancel the inevitability of an American import balance. And even the postponement depends in part upon economic conditions in America, and in part upon significant changes in Europe's industrial philosophy.

The non-financial possibilities of solution exhibit an interesting variety, but chief among them is increased expenditures by American tourists. From any or all of these proposed solutions, however, only a modification of the size of America's inevitable import balance can be expected, and even this result depends in part upon a changed business attitude in Europe.

If, then, an import balance is inevitable at some time, it becomes important to discover, if possible, what foreign economic policies here and abroad would involve the least difficulties. It may be that the tariff problem of America could be circumvented if Europe can develop for export to America new or comparatively non-competitive products; but unfortunately it is easier to speculate on such a development than to make concrete or valid suggestions regarding it. The so-called tri-

angular arrangement of world trade may make possible the exploitation by Europe of foreign markets which would in turn ship duty-free raw materials to the United States. The character of triangular trade, however, changes chiefly the form rather than the substance of the problem, and in the immediate future at least, threatens America's foreign markets even more than it promises to protect the American domestic market. Moreover, this development, too, assumes a modification of European industrial methods and philosophy.

Since an eventual import surplus seems unavoidable, the most direct problem becomes one of mitigating its effects. Fortunately, the surplus is represented by an absolute sum which will of course vary slightly from year to year but which on the whole may be reduced in terms of percentage by calculating it from a larger base of foreign trade. A growing world trade is consistent with the progress of nations throughout the centuries, and is a rational expectation in view of the vast potential markets in the relatively undeveloped parts of the world.

The realization of the potentialities of international trade depends, however, on the proper procedure on the part of both Europe and America. For America, there is need for a non-political, economically sound handling of the tariff policy. For Europe, only radical

changes in method, ideas, and social attitudes can release the powers necessary for successful efforts in the markets of the world.

Many times in this narrative, the problems of America were left at Europe's doorstep. The recurrence of this situation prompts us to open a neighbor's door and glance within his home. This intrusion is not motivated by the common desire to express an opinion, however ill-founded, but is the fortuitous consequence of tracking down one's own problems wherever they may lead.

Chief among the dynamic factors of America's economic superiority over Europe and the rest of the world are mass production and intensive distribution; and of the two, distribution is, in a sense, even more important than production. Intensive distribution, more than any other factor, is responsible for the tremendous development of the American domestic market. Many unique elements, of course, make that market an especially fruitful one. A true democracy of consumption, high wages, and powerful sales instruments like the deferred payment plan are some of the important constituents. The magnitude of the American market as a unit has made possible mass production, which in turn has resulted in successful price competition in the world's markets.

The principles of thrift and caste consumption so generally accepted in Europe are, on the contrary, of questionable value from an industrial point of view. The primary emphasis on exports seems to be a false emphasis. The failure to develop sales technique and production methods are greater handicaps to economic development than any shortage of raw material or unfavorable geographical location that may be held to exist for Europe.

European objections to an extension of modern methods of business are mostly rooted in tradition and culture. Tradition, however, has frequently dammed up the stream of progress, with unfortunate results well known to the student of history; and an altogether necessary adjustment to material requirements need not mean the destruction of a culture. There is even good reason to believe that a sound economic basis is requisite for every culture that is not decadent or moribund.

To argue the point, however, is hardly necessary. Already developments along the lines indicated are visible in Europe, and an extension of them seems now only a matter of growing awareness to economic realities on the part of responsible Europeans.

The way out of the international economic dilemma that the War created winds along the highways of

international trade, and the principals on the new scene will be America and Europe—once Europe has become industrially-minded and America internationally-minded. The vision does not, however, end with a lifeless barter of goods. In front of the counters, as well as behind them, in all corners of the world, will be millions upon millions of people with higher standards of living than ever, enjoying material benefits such as hundreds of ambitious and noble-minded social reformers are impotent to achieve for them. Moreover, that such an opening up of the sluices of a fuller economic life should show a marked, if not corresponding gain along cultural lines, is a reasonable expectation.

Mankind, if it retains its sanity, may yet achieve a new synthesis of spiritual and material life, which will embrace more members of the human family than ever before.

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